# JOB SEARCH AND REEMPLOYMENT SERVICES FOR THE UNEMPLOYED

## HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

## COMMITTEE ON WAYS AND MEANS
## HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

FEBRUARY 28, 1991

**Serial 102-9**

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

43-247 WASHINGTON : 1991

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H781-36

## COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ED JENKINS, Georgia
THOMAS J. DOWNEY, New York
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, JR., Arkansas
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania
MICHAEL A. ANDREWS, Texas
SANDER M. LEVIN, Michigan
JIM MOODY, Wisconsin
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington

BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
DICK SCHULZE, Pennsylvania
BILL GRADISON, Ohio
BILL THOMAS, California
RAYMOND J. McGRATH, New York
ROD CHANDLER, Washington
E. CLAY SHAW, JR., Florida
DON SUNDQUIST, Tennessee
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
FRED GRANDY, Iowa

ROBERT J. LEONARD, *Chief Counsel and Staff Director*
PHILLIP D. MOSELEY, *Minority Chief of Staff*

---

### SUBCOMMITTEE ON HUMAN RESOURCES

HAROLD E. FORD, Tennessee, *Chairman*

THOMAS J. DOWNEY, New York,
*Acting Chairman*
BARBARA B. KENNELLY, Connecticut
MICHAEL A. ANDREWS, Texas
JIM McDERMOTT, Washington
SANDER M. LEVIN, Michigan
JIM MOODY, Wisconsin

E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
FRED GRANDY, Iowa
ROD CHANDLER, Washington

# CONTENTS


Page

Press releases of Wednesday, February 6, and Thursday, February 7, 1991, announcing the hearing ..... 2

WITNESSES

Coates, Jim, International Woodworkers of America, Local 3-2, Aberdeen, Wash ..... 17
Jacobson, Louis, W.E. Upjohn Institute for Employment Research, Kalamazoo, Mich ..... 60
Kerachsky, Stuart, Mathematica Policy Research, Inc., Princeton, N.J ..... 68
Nevada State Employment Security Department, James S. Hanna ..... 36
Sarbanes, Hon. Paul S., a U.S. Senator from the State of Maryland, Chairman, Joint Economic Committee ..... 48
Unsoeld, Hon. Jolene, a Representative in Congress from the State of Washington ..... 5
Washington, State of, Department of Employment Security, Kathy Countryman ..... 27

# JOB SEARCH AND REEMPLOYMENT SERVICES FOR THE UNEMPLOYED

---

THURSDAY, FEBRUARY 28, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10:30 a.m., in room B-318 Rayburn House Office Building, Hon. Thomas J. Downey (acting chairman of the subcommittee) presiding.

[The press releases announcing the hearing follow:]

FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 6, 1991

PRESS RELEASE #5
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

**THE HONORABLE THOMAS J. DOWNEY (D., N.Y.), ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON JOB SEARCH AND RE-EMPLOYMENT SERVICES FOR THE UNEMPLOYED**

---

The Honorable Thomas J. Downey (D., N.Y.), Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced the Subcommittee has scheduled the fourth in a series of hearings on unemployment insurance (UI). The hearing, which will address job search and re-employment services, will be held on Thursday, February 28, 1991, at 10:00 a.m. in room B-318 Rayburn House Office Building.

Federal law requires unemployment insurance claimants to be able to work and available for work. Recent demonstration projects have shown that intensive job search assistance to unemployed workers with no definite recall dates from their previous employers not only helps them find jobs sooner than they would otherwise, but also saves money for the unemployment insurance system and the Federal budget. Moreover, in these demonstrations, workers were not just taking any jobs, but jobs comparable to the ones they would have taken without intensive job search assistance, but later. This hearing will focus on the unemployment insurance system's current efforts to find jobs for claimants and any new ideas that have been tested in the States.

Witnesses should address the following questions: What kind of job search activities do the States require of unemployment insurance claimants? What are the recent trends in these requirements? What does the Employment Service do to help claimants find jobs? Could the Employment Service do more? Is the Employment Service effective at helping claimants find jobs? Are there other organizations, such as job clubs, that claimants could use to find jobs? Are there other forms of job search assistance that could be used, such as vouchers, re-employment bonuses, or computer job banks that might make the system more effective?

**DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:**

Testimony at the hearing will be taken from public witnesses. Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler or Diane Kirkland [(202) 225-1721] no later than the close of business, Thursday, February 21, 1991. The telephone request must be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-1025].

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearings.

(MORE)

**(See formatting requirements below.)** This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear are required to submit 200 copies of their prepared statements to the Subcommittee office, B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

**WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:**

Persons wishing to submit written statements for the printed record of the hearings should submit at least six (6) copies of their statements by close of business, Thursday, March 14, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public, they may deliver 100 additional copies for this purpose to the Subcommittee office, room B-317 Rayburn House Office Building, on or before the day of the hearing.

**FORMATTING REQUIREMENTS:**

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * NOTICE -- CHANGE IN TIME ***

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 7, 1991

PRESS RELEASE #5-REVISED
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1025

THE HONORABLE THOMAS J. DOWNEY (D., N.Y.), ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON JOB SEARCH AND RE-EMPLOYMENT SERVICES FOR THE UNEMPLOYED

---

The Honorable Thomas J. Downey (D., N.Y.), Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee hearing on job search and re-employment services for the unemployed scheduled for Thursday, February 28, 1991, will begin at 10:30 a.m., instead of 10:00 a.m. as announced earlier.

All other details for the hearing remain the same (see press release #5, dated February 6, 1991.

* * * * * * *

Acting Chairman DOWNEY. The subcommittee will come to order.

Today we hold the last in a series of hearings on unemployment insurance. Witnesses will address the issue of whether to provide additional reemployment assistance to unemployed workers and whether this would be cost effective.

At last Tuesday's hearing, we learned that about 2 million people run out of regular State benefits during good times and the number is on the rise during this recession. Contrary to the myths about unemployed workers, it turns out that most are not living high off the hog until their benefits run out.

Even during good times, 60 percent of those who run out of benefits are still unemployed 10 weeks after their benefits run out, and many wind up taking jobs paying substantially less than their previous jobs.

Helping unemployed workers to find new jobs is the topic of today's hearing. Recent evidence from New Jersey, Nevada, and Washington suggests that the Federal Government could cut its outlays overall if it only would spend a little more money on job search assistance. This is something Members of Congress from both sides of the political aisle could support.

It is rare when research evidence quickly affects public policy. But the evidence we will hear today is so startling, this might be one of those instances.

We are honored and pleased to have as our leadoff witness the gentlewoman from the State of Washington, Jolene Unsoeld.

Ms. Unsoeld, welcome.

## STATEMENT OF HON. JOLENE UNSOELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Ms. UNSOELD. Thank you, Mr. Chairman.

I am here on behalf of loggers, but obviously I am not a logger. I was brought up under the mystique of the woods and my brother is the third generation which has made his living from the woods. Three of my kids have worked in the woods and my first pair of climbing boots were calk boots.

Now in order for you to understand the logger for the really magnificent craftsman he is, I want you to try to imagine being in old-growth woods standing beneath a 250-foot towering tree with fellow workers who have started learning this skill at a very early age, have had to be quick on their feet, and make instantaneous decisions that involved a lot of intellectual judgment.

First the high climber goes up this tree to take the top off. The logger is now looking at this 6-foot diameter of solid wood. He makes an undercut, then a back cut, and then drops that tree right on a dime.

Then he moves from tree to tree, repeating the process. If he misses, if the tree hits a stump, or a rock, the thing can split or splinter—and that wood is wasted. If the trees fall across each other, to move them is more work. Loggers are not wasteful people, so they will not skirt a difficult task. They are very skilled craftsmen. They do their work in the harsh cold for long hours and it is very dangerous.

If they make a mistake, there is not only waste, and hence a reduction in the amount of wood that is available for milling, but they could also lose their lives.

Once they have these downed logs, someone rigs a tower or a tall tree and a steel cable is drawn down the hillside, sometimes 2,000 or 3,000 feet. A ball on the end of the cable is run under the logs and a bell that slides on the upper cable comes down and the "choker setter" places that bell on the ball, securing the logs.

Then as the tension is taken up from the tower, that bundle of logs is "choked" and pulled up to the landing. Any mistake in judgment or failure of equipment and you may have a decapitated worker or other very serious accidents.

Now today we are coming to ask you for help and to give our communities, our families, a chance to adjust to the enormous changes that our Government is imposing on them.

There are many Government actions that have contributed to this problem. Whether it is the spotted owl, or other forest practices, like the protection of streams or the protection of ancient forests, all of these Government policies have contributed to a shrinking timber-growing land base. Unfortunately, both the private timber industry's and Government's reaction was to overcut and compound the mismanagement that had been taking place.

But these Government actions and inactions are costly. We must realize that environmental values, and I am not questioning those values, have a price. The price that we are asking our families in the Northwest to pay economically, socially, and emotionally is tremendous.

The fabric of these people's lives and culture is really being torn asunder by decisions that have been made by Government agencies and politicians from far, far away. They feel that those decisions are beyond their control, that they are being attacked, and that the American dream for them is being betrayed.

Now Robert G. Lee, a professor at University of Washington, has done a lot of study on forest-dependent communities. He compares the timber workers with dislocated miners and says that they are somewhat similar, but that miners have not had the same economic independence and attachment to their work; the Government did not guarantee resource supplies through, supposedly, sustained yield planning; and miners are not portrayed in disparaging terms such as "tree killers."

Finally, the union solidarity of many miners has taught them to cooperate in the face of threats, whereas self-reliant woods workers are only now learning to cooperate.

Many of these loggers were taught since childhood and now believe that logging is the only acceptable way to make a living. When they are faced suddenly with the fact that working in the woods is no longer a viable alternative, they not only lose the means of earning a wage, but they lose a very important part of their identity and their sense of personal empowerment.

The more firmly attached an individual is to this occupational identity, the more traumatic and disorienting this kind of experience is likely to be.

I would like to give two quick examples of the people that were interviewed by Lee. One woman spoke about what would happen if her husband could not log anymore. She said, and I quote:

> It would be a tremendous blow to him, to his ego to leave logging. He has put so much of himself on the line for the job over the years. Since it is so dangerous, you have to. It is a macho thing too. He would be so hard on himself about it. He would feel as though he had really failed.

One logger expressed his own uncertainty in dealing with the situation like this:

> The uncertainty and powerlessness is unbearable. I think about it all the time. Every day, hour, minute, I am worried about what will happen. Maybe my mind will wander away from it for a bit, but it always comes back.

Lee concludes his interviews by suggesting that loggers feel that many in our society no longer value their traditions of independence and hard work.

Mr. Chairman, we in the Northwest must join our colleagues from across the Nation to develop sound management practices to provide a reliable future timber supply, to provide environmentally sustainable use of our resources, and to develop the infrastructure to add value and get the most from every scrap of our resources.

But, Mr. Chairman, we need your help, too. We desperately need long-term training and associated income support if workers are going to make the transition to family wage jobs in the future.

We need to give trainees allowances to help families meet basic needs such as mortgages, food, and car payments. We certainly do not need to follow the President's recommendation to terminate the Trade Adjustment Assistance Act. Rather, we should provide it with sufficient funding.

Additionally, we need to expand the unemployment program to pick up those workers who have been self-employed, such as log truck drivers or contract loggers or those who have only worked part time.

Finally, we should develop a system to provide support services including child care, transportation, and emergency medical services.

Mr. Chairman, I know this is a tall order. I also know that Government policies are directly responsible for the agony these families are facing and that we should help ease their pain if we can.

On the second panel you are going to hear from one of these ruggedly self-reliant, resourceful, hard-working timber industry workers who will tell you about his attempts to help other displaced workers again find independence.

Thank you, Mr. Chairman and members of the committee for your interest in this vital issue. I look forward to working with you to improve Federal unemployment retraining and support programs and to help those in the Pacific Northwest and elsewhere adjust to the awful jolt of Government-caused joblessness.

[The prepared statement follows:]

**STATEMENT BY THE HONORABLE JOLENE UNSOELD**
**BEFORE THE HOUSE WAYS AND MEANS**
**SUBCOMMITTEE ON HUMAN RESOURCES**
**FEBRUARY 28, 1991**

Obviously, I'm not a logger.

But I was brought up under the mystique of the woods. My brother is the third generation in my family to make his living from the woods. Three of my children have had jobs in the woods. My first climbing boots were cork boots.

In order for you to understand and appreciate the logger for the magnificent craftsman that he is, I want you to imagine this scene. You are standing beside a 250-foot towering tree six feet in diameter. These guys started young at a job that required them to be quick on their feet and to make split-second decisions that require a lot of intellectual judgment on how you do the job with the least effort and the maximum yield. The high-climber goes up and drops the top. Now you put an undercut in that six-foot diameter and then a backcut and you lay out that giant on a dime, in order to save the wood on it. If they hit a stump when they fell it, or a rock, they lose some of the wood and there is nothing wasteful about them. They sometimes can spin it on the stump 180 degrees and have it fall in the opposite direction so that it doesn't split or shatter. And then they lay one after another, neatly, side-by-side. Then someone puts up a tower on the hill crest above the logs with this steel cable coming down from it like a tensed snake. The choker-setter passes the ball end of the cable under the logs and a movable bell is slid down the cable and "set" on the ball. As the guy at the tower starts taking the slack out of the cable, it "chokes" the logs and they are hauled up the slope -- sometimes three thousand feet. If they make any mistake along the way, it's wasteful and they have to go back and correct the mistake. Or if they make a mistake, it might kill them. They do this in the harsh cold and wet for long hours. These are enormously technical skills and these guys are good, but the skills are not readily transferred to other jobs.

Today we're coming to you to ask your help to give our communities, our families, a chance to adjust to the enormous changes that government is imposing on their lives.

Whether the cause was the little spotted owl (now discussed nationally), stream or habitat protection, the saving of wilderness or ancient forests or scenic and wild rivers, a foreign trade policy that sent the best of our raw logs overseas along with the jobs, or protection of the spawning beds for what may be threatened salmon species; our current timber shortage is the result of government action and failure to act. When it was finally noticed that the timber harvest land base had drastically shrunk, the reaction of both the timber industry and the government was to accelerate overcutting. Policy mismanagement has been rampant.

These government actions and inactions have a cost -- a very harsh cost. The price environmental values are asking our families in the Northwest to pay -- economically, socially and emotionally -- is tremendous. The fabric of their lives and culture is being rent and torn asunder by decisions made by government agencies and politicians far away and, they feel, beyond their control. They feel attacked and betrayed. For them, they feel the American dream is being betrayed.

Dr. Robert G. Lee is University of Washington Chair for the Division of Forest Resources Management. Much of his research has focused on forest-dependent communities and I will draw upon his interviews. He writes:

> Dislocated miners are in a somewhat similar position to wood products workers but have not had the same economic independence and attachment to their work. Moreover, the government did not guarantee resource supplies through sustained yield plans, and miners are not portrayed in disparaging terms such as "tree-killers." Also, the national solidarity of many miners has taught them how to cooperate in the face of threats, whereas the self-reliant wood-products workers are only learning now how to cooperate.
>
> Many of the loggers observed and interviewed were taught since childhood to believe that logging is the only acceptable way to make a living. In a typical case, an individual may have followed his father's footsteps, devoting 10 or 20 years to developing skills and reputation as a good logger. In the course of that time, he would have received numerous affirmations from those around him that serve to strengthen his identity and commitment to the occupation. He would have developed a circle of friends, largely from the occupational group, and many of his leisure-time activities would be in one way or another related to logging. If such an individual is suddenly faced with the fact that "working in the woods" is no longer a viable alternative, he

> not only loses a means of earning a wage, he loses an important part of his identity and sense of personal empowerment as well. The more firmly attached an individual is to this occupational identity, the more traumatic and disorienting this kind of experience is likely to be.

Expressing his resentment and anger, one logger told Lee:

> Personally, I'd rather starve to death here [or] just live off elk meat rather than participate in any degrading plans to move me around and change my life and culture.

A woman spoke about what would happen if her husband could not log anymore:

> It would be a tremendous blow to him, to his ego, to leave logging. He has put so much of himself on the line for the job over the years...since it's so dangerous, you have to. It's a macho thing, too. He would be so hard on himself about it; he would feel as though he had really failed.

One logger expressed his uncertainty in dealing with the situation like this:

> The uncertainty and powerlessness is unbearable. I think about it all the time. Every day, hour, minute I'm worried about what will happen. Maybe my mind will wander away from it for a bit, but it always comes back....

Lee concludes his interviews by saying:

> There was a widespread feeling among the loggers interviewed for this study that not only are there powerful political forces attempting to prevent them from cutting trees but, that much of society no longer values their traditions of independence and hard work. From their perspective, much more than jobs and economics are <sic> at stake, and no acceptable solutions are apparent.

Mr. Chairman, we in the Northwest must join our colleagues from across the nation to develop sound management practices to develop a reliable future timber supply -- to provide environmentally sustainable use of our resources and to develop the infrastructure to add value and get the most from every scrap of our resource. But, Mr. Chairman, we need your help, too.

We desperately need long-term training and associated income support if workers are going to make the transition to family wage jobs in the future. We need to give trainees allowances to help families meet basic needs, such as mortgages, food, and car payments. We certainly do not need to follow the President's recommendation to terminate the Trade Adjustment Assistance Act. Rather, we should provide it with sufficient funding. Additionally, we need to expand the unemployment program to pick up those workers who have been self-employed, such as log truck drivers or contract loggers, or those who have only worked part-time. Finally, we should develop a system to provide support services, including child care, transportation and emergency medical service.

Mr. Chairman, I know this is a tall order. I also know that government policies are directly responsible for the agony these families are facing -- and that we should help ease their pain if we can.

On the second panel you will hear from one of these ruggedly self-reliant, resourceful, hard-working timber industry workers who will tell you about his attempts to help other displaced workers again find independence.

Thank you, again, Mr. Chairman for your interest in this vital issue. I look forward to working with you to improve federal unemployment, retraining, and support programs -- and to help those in the Pacific Northwest and elsewhere adjust to the awful jolt of government-caused joblessness.

Acting Chairman DOWNEY. Jolene, thank you very much for your statement. I do not think I have ever heard a more eloquent description of what it must be like to be a logger and faced, as you point out, with the uncertainty and powerlessness of losing your job.

It is hard indeed when one loses his job. It is even harder to reconcile that with the Federal Government's partial responsibility for it.

If I had my way, we would do the things that you suggest. You know that. I think that probably would pass the subcommittee, and it might even pass the full committee, but I am not sure it would ever make it into law.

Short of that, would it be enough for us to extend unemployment compensation for a longer period of time and provide assistance for intensive job search?

Now, I think as you point out, some of the skills attended with logging are not easily transferable to outside of the woods, but there is always a place, it seems to me, for people of intelligence, self-reliance, and judgment. Just because one has spent a long time logging does not mean that you cannot do something else if you are encouraged to do other things.

Short of doing a big jobs bill, what else can we do?

Ms. UNSOELD. Each step is important and any small distance that you can take us down the path of making this transition would be most welcomed.

Acting Chairman DOWNEY. I think it is the responsibility of Government to care for the people it has put out of work, but we are not going to be able to go as far as I would like, but we will go as far as we can.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

This issue is of concern to timber workers in the State of Washington facing long-term unemployment for two reasons; first, the recession, which has reduced housing starts and the market for wood products and, second, the need to protect ancient forests and reduce timber harvest under Federal law.

I am happy that Congresswoman Unsoeld is here today along with the other witnesses from the State of Washington.

This subcommittee discussed the need of workers affected by Federal decisions last year. Unlike people unemployed due to cyclical economic factors, these workers do not bounce back with the economy. The timber industry in the Pacific Northwest is undergoing irreversible changes leaving isolated communities without the economic and vocational tools to rebuild.

The people of southwest Washington have depended upon timber to put food on the table for this entire century. Unfortunately for these families, the regional economy cannot provide new employment opportunities for them within the short time period that they are eligible for unemployment benefits. It will take years for the economy to undergo a healthy adjustment to new industries.

Since the likelihood of extended benefits being triggered in my State under current law is zero, entire communities will languish. After losing their jobs, their health care, their savings and their housing, these families will begin to fall apart.

Unless we can revamp the extended benefits program and provide opportunities for retraining and economic development, the future is extremely bleak for them. No one knows this better than Congressman Unsoeld and no one is doing more than she to try and prevent this, but by herself she cannot do it and that is why we need the committee's help. The subcommittee is presented with dual challenge, in my view, to make the unemployment system work during recessionary periods and also during times when Federal policy deals a difficult hand to a particular industry.

I would like to thank the subcommittee staff for their assistance in accommodating the testimony of witnesses from our State today. It is my hope that this hearing will help us in crafting a solution which addresses the reemployment needs of all types of unemployed workers in this country.

I set chokers once because of a steel strike in Chicago. In 1956, the entire steel industry shut down. I had no job for the summer to earn money to go to college, so I went out to the West and set chokers in the Bitter Root Mountains of Montana. So I know the job and it is a tough job and people who do it are going to have tough trouble making the transition to other kinds of work, but they are skilled if they are given a break in terms of extended benefits long enough to go through a training program.

The first period you go through is always trying to decide whether your job is going to come back. Is this really a short-term layoff or will you need to look at other opportunities? By the time you realize you need training, half your benefits are gone. There is no way to finance retraining and keep a family together at the same time. I think this is the real challenge of restructuring the unemployment system in this country, not only in the timber industry, but in a series of other industries in this country.

So I hope that we can do some things in this committee and I know the chairman is interested in it. This is not the first time this issue has come up and we will keep working on it until we get it out of here and get it through the Congress. Thank you.

Acting Chairman DOWNEY. Thank you, Dr. McDermott.

[By subsequent unanimous consent, Mr. Shaw submitted the following opening statement:]

OPENING STATEMENT OF HON. E. CLAY SHAW, JR.

Mr. Chairman, once again, all of the Republican Members of the Subcommittee thank you for holding these hearings. They have been exceptionally informative and have uncovered a number of issues on which our Members could probably agree.

One of them, of course, is the central importance of education, training, and job services. Anything we can do to provide better job services will help unemployed workers.

I want to call the attention of the Subcommittee and today's witnesses to the very substantial investment the federal government already makes in job preparation. According to a recent GAO report, we spend nearly $17 billion per year on 45 programs that, according to the report, have "a significant skill training component." Without objection, Mr. Chairman, I would like to put the letter of transmittal and the table of contents from this report in the record.

We should begin our consideration of employment services with the understanding that although funding of public service jobs and similar programs was cut during the 1980s, there is still a lot of federal money being spent. Our first responsibility should be to make sure that money is being spent wisely.

To the extent possible, I hope our witnesses will address themselves to this issue. Thank you.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-234796

April 14, 1989

The Honorable Tom Harkin
Chairman, Subcommittee on Labor,
Health and Human Services,
Education and Related Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

In response to your subcommittee's request for information on programs in the federal government that have a significant occupational training component, we are providing data on 45 programs. These programs span six departments--the Departments of Labor, Education, Health and Human Services, Veterans Affairs, Agriculture, and Transportation.

We obtained much of the information on programs from the Office of Management and Budget's 1988 Catalogue of Federal Domestic Assistance, with updates developed through conversations with knowledgeable department officials. These officials also informed us about programs initiated in the past 2 years. Finally, we obtained data from the 1990 budget requests of each of the six departments. While we were unable to verify all of the data, we took measures to ensure their accuracy.

The 45 programs with a significant skill training component have total fiscal year 1989 funding of $16.7 billion, although several of the programs include significant funding for other activities. The fiscal year 1990 budget requests $16.3 billion for 38 of these programs; there is no budget request for the other 7 programs. The Department of Labor operates 9 programs with fiscal year 1989 funding of $3.8 billion, most of them under the Job Training Partnership Act. The Department of Education operates the most programs, 21, with fiscal year 1989 funding of about $11.1 billion.

The accompanying materials include (1) figures depicting the number of programs and appropriations for fiscal years 1989 and 1990 for training for the non-college-bound; (2) six summary tables listing the programs, their total funding, and the estimated number of participants for fiscal years 1989 and 1990, by department; (3) a table listing those programs for

which no funding is requested for fiscal year 1990; and (4) a listing of the programs, including brief program descriptions, the programs' authorizing legislation, the appropriations for fiscal year 1989, and the funding request for fiscal year 1990.

Where we could readily obtain the necessary information, we provide an estimate of the amount of funding under each program directed at non-college-bound participants. This affects five programs in the Department of Education and five of the seven programs in the Department of Veterans Affairs, where only a fraction of the funds go to skill training for non-college-bound participants. According to Department of Education officials, the percentage of program funds estimated as going to non-college-bound occupational skill training are: Pell Grants, 25 percent; Higher Education Act Insured Loans, 36 percent; Supplemental Education Opportunity Grants, 13 percent; Rehabilitation Services-Basic State Grants, 15 percent; and Postsecondary Programs for Handicapped Persons, 25 percent. In the Department of Veterans Affairs, about 14 percent of the funds for the seven training programs are for non-college-bound participants, according to department officials.

The information on training programs for non-college-bound participants is depicted in three figures showing (1) fiscal year 1990 funding requests for skill training programs, by department; (2) the number of training programs for fiscal years 1989 and 1990, by department; and (3) fiscal years 1989 and 1990 appropriations for training programs, by department. Total funding for such participants in the Departments of Labor, Education, Health and Human Services, and Veterans Affairs is about $8.3 billion.

Copies of this fact sheet will be made available to interested parties on request. Major contributors are listed in appendix V.

Sincerely yours,

William J. Gainer

William J. Gainer
Director of Education
and Employment Issues

## Contents


| | | Page |
|---|---|---|
| LETTER | | 1 |
| APPENDIX | | |
| I | TRAINING PROGRAM APPROPRIATIONS AND NUMBER OF PROGRAMS | 4 |
| II | SUMMARY TABLES | 7 |
| | Department of Labor | 7 |
| | Department of Education | 8 |
| | Department of Health and Human Services | 9 |
| | Department of Veterans Affairs | 10 |
| | Department of Agriculture | 11 |
| | Department of Transportation | 12 |
| III | PROGRAMS FOR WHICH NO FY 1990 FUNDS WERE REQUESTED | 13 |
| IV | INDIVIDUAL PROGRAM DESCRIPTIONS | 14 |
| | Department of Labor | 14 |
| | Department of Education | 19 |
| | Department of Health and Human Services | 28 |
| | Department of Veterans Affairs | 31 |
| | Department of Agriculture | 34 |
| | Department of Transportation | 35 |
| V | MAJOR CONTRIBUTORS TO THIS FACT SHEET | 36 |


## Abbreviations

| | |
|---|---|
| JOBS | Job Opportunities and Basic Skills Programs |
| JTPA | Job Training Partnership Act |
| WIN | Work Incentive Program |

Acting Chairman DOWNEY. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman.

I want to welcome my colleague from the State of Washington here this morning.

I also want to commend you, Mr. Downey, for scheduling this hearing to review job search and reemployment services for unemployed workers. This is certainly one of the most important components of the unemployment insurance program.

First, I would like to make clear that the overall UI program is one designed to foster reemployment. It is not a welfare program. We need to ensure that workers are given proper assistance in the form of counseling and job training in order to get them back into the work force as soon as possible.

For those workers who are displaced, it is important that this assistance is offered as soon as the worker enters the UI program or otherwise as soon as possible.

The protection of spotted owls—and soon I think other endangered species—and interest in preserving the old-growth forests in the Pacific Northwest are having drastic effects on the timber industry and jobs. We must continue to have adequate levels of timber supply for jobs in order to protect our economy.

Continuing uncertainty caused by the Endangered Species Act indicates that high levels of unemployment in the timber industry will continue in spite of our best efforts.

For these workers we need to ensure that the job services offered are adequate and that retraining opportunities are readily available.

As my colleagues have pointed out, in the State of Washington, we have small, remote towns and communities that have been built very often entirely around a single sawmill. If that mill shuts down, everyone in that town is in jeopardy of losing whatever economic stability they once had.

Instead of relocating, these people need to be given the opportunity to succeed where they are. Many do not have the resources to commute to a larger town to receive formal education and training. Neither do they have the resources to support their families during such a lengthy process.

It is these people who need the additional assistance in the form of both income maintenance and job training services.

I want to call my colleagues' attention today especially to the testimony of Kathy Countryman from the Washington Department of Employment Security. She will provide testimony on the various demonstration programs underway in our State to assist communities that rely on this single threatened industry.

You should also pay careful attention to Jim Coates who represents the International Woodworkers of America. He will provide us with testimony about the unique circumstances facing displaced timber workers.

Finally, I want to say that I particularly thank my colleague, Ms. Unsoeld, and of course my friend, Mr. McDermott. We in the Pacific Northwest have been at work on this problem for a good long time.

Last year the delegation asked Congressman Dicks of the Sixth Congressional District and me to develop legislation to address this

unemployment insurance program. We are doing that and, Mr. Chairman, very soon we will have legislation. Once the Washington congressional delegation has had a chance to review it and make its changes, we will submit it to you.

It is my hope that we can consider it very quickly because targeting assistance to those most in need is what we ought to be about.

As Ms. Countryman will point out in her testimony, there are workers who need very little job search assistance and are able to get by with the income maintenance program provided under UI today.

Then there are the workers who have very few assets, are living at or near the poverty line even when they work and they have had on top of that very little formal education or training.

Given our limited resources, it is my view that we must target the additional benefits to these most vulnerable of the displaced workers and that will be the spirit of the legislation which I am confident we will present to the committee.

I thank the Chairman and I commend again my colleagues for their work on this issue.

Acting Chairman DOWNEY. I thank the gentleman.

Mr. Chairman.

Mr. FORD. Thank you very much, Mr. Chairman.

I do not have any questions of my colleague. I would just like to thank her for testifying before the committee. I also would like to thank you, Mr. Downey, for your leadership in moving in this direction.

I, too, would join with my other colleagues and say that this is an area in which I would hope that the committee would move in full speed and try to correct some of the wrongs that are out there.

When we talk about unemployed workers needing assistance and job search assistance, we talk about issues that are timely for consideration by this committee. I will be one who will help my colleagues move legislation out of this committee to the full committee and to the House floor.

Acting Chairman DOWNEY. I thank the gentleman.

The gentleman from Florida.

Mr. SHAW. No questions, but I would ask unanimous consent to place an opening statement at the appropriate place.

Acting Chairman DOWNEY. Without objection, it is so ordered.

The gentleman from Texas.

Mr. ANDREWS. I have no questions, Mr. Chairman.

I do want to thank Jolene for coming before our committee and thank you very much for your testimony.

Acting Chairman DOWNEY. Thank you, Jolene.

Ms. UNSOELD. Mr. Chairman, I am a pretty poor substitute for a timber worker, and the most important witness you are going to have today is Jim Coates. I know you all may get called other places. So if you do have to leave the room, please read his testimony.

Mr. CHANDLER. Mr. Chairman, if I might just direct a question at my colleague. I think it would be useful for the committee.

That is simply to point out the State of Washington is front and center here today. I think you agree with me, however, we are not

the only State affected. The programs that we are talking about would benefit not only the entire State, but others.

Ms. UNSOELD. Oregon and northern California are affected by the spotted owl, but there are other Government policies which affect the timber industry that are much more widespread and also deserve attention.

Mr. CHANDLER. I thank my colleague.

Acting Chairman DOWNEY. Thank you.

The subcommittee will next hear from a panel comprised of the Employment Security Department of the State of Nevada, James S. Hanna, director of employment security research; Employment Security Department of the State of Washington, Kathy Countryman, research director for unemployment insurance; and, Jim Coates, International Woodworkers of America, Local 3-2, outreach worker and former millwright electrician from Aberdeen, Wash., a lumber mill.

Mr. Coates, with the introduction that Ms. Unsoeld gave you and the desire of the other members of the committee, we will take you first. If you have a statement for the committee, we would receive it at this time.

## STATEMENT OF JIM COATES, MEMBER, INTERNATIONAL WOODWORKERS OF AMERICA, LOCAL 3-2 (OUTREACH WORKER AND FORMER MILLWRIGHT ELECTRICIAN FROM AN ABERDEEN, WASH., LUMBER MILL)

Mr. COATES. Thank you, Mr. Chairman and committee members.

Good morning. My name is Jim Coates. I live in Grays Harbor County in the State of Washington. The 1990 census puts the county at approximately 64,000 people. Within the county, two-thirds of all businesses are timber related.

I started in the industry 27 years ago setting chokers in the woods. In 1986, I completed a millwright apprenticeship and from that point forward have been a millwright electrician for not only plywood mills, but also lumber industry.

In 1990, the membership had plummeted due to logging and mill closures and because of that drop in membership I was to return to my previous job.

At that time the employment security had asked me if I would, under contract through the local, work as an outreach worker. At that point in time, on March 5, 1990, there was $107,000 under EDWAA funds that was allocated to start the timber project.

By mid-April, we could see by the amount of people who were coming in that those funds would not last to the end of the biennial and that those who were trying to get retrained were either at the end of their unemployment or did not have sufficient means to continue into the employment unless as a community we tried to create some resources.

In the outlying areas—I know it is hard for people in the urban areas to understand how far apart we really are. Many of the roads within the county are two-lane highways. Your supermarkets here or convenience stores here are markets in the various areas.

There is no recreation within those areas for the children unless it is sports, Boy Scouts, Cub Scouts, and/or 4-H.

It has been quite a disaster. It has gone beyond what I had ever thought would happen. The food banks were getting hit so hard in the outlying areas that rationing started. At that point in time I went to a friend of mine who owns a nursery who had been a mill worker himself, both he and his wife. Through their generosity, we had put 15,500 vegetable plants out into the communities.

What I had tried to do earlier was to get enough seed to put the gardens in, but with the amount of rainfall that we were getting, it was impossible. So we had to do it with pregrown plants to even be able to get some sort of a harvest through the summer.

I was hoping at that point in time that that would back those banks up so it would not be such an influx of food. It did not not help much. The influx was from 14 to 20 percent within those banks with a reduction in donations from 28 to 56 percent depending on the area that you were in.

In one part of the county that man receives no help within the county and he has to rely on cajoles with the Salvation Army.

With winter coming on I could see we were going to be even in worse shape. I negotiated for 2 months with a company to get a small piece of land to start a prefirewood lot. Most all the houses within the community have in the past been able to burn wood.

The electric rates from the 1970s to now have increased close to 500 percent. At that time I was able to open that yard in October and from that point till now we have put around 203 cords of wood. That does not include the mill ends that I currently receive to try and—that are dry so that they will be able to at least start the fires and keep them going because the wood that we do supply is green, which can cause chimney fires.

There have been many days when I cannot keep up with it. Just before I left, I had a call from a family where the parents had not eaten for 3 days so that the children could survive.

I also picked those clients who the Salvation Army was buying wood for. I took over those clients so that money could be cut loose for utilities and prescriptions.

I have listed two cases in here of people that I personally know who are trying to make it through school, but I want you to understand there are hundreds of them. This has been created by a Federal act.

We have had no help within the communities whatsoever except for some small amount of money that the Washington Association of Churches has sent down.

What we have done we have done on our own and we are having a heck of a time trying to keep up with the massive amount of unemployment that is currently going on. Extension of benefits will help those who become unemployed from this period forward, but we have been experiencing this for over a year and a half. Many of those have either drawn all of their unemployment or have not worked enough hours to reinstate a claim.

Along with this is a—on the back page is what is called the Timber Community Fairness Act. I would please ask for your consideration in your putting together legislation for these rural communities and these people. Thank you.

[The prepared statement follows:]

STATE OF WASHINGTON

Testimony for
Public Hearing on Job Search and Re-Employment Services
for the Unemployed
before
the Subcommittee on Human Resources,
Committee on Ways and Means,
U.S. House Representatives

by
Jim Coates
International Woodworkers of America,
Local 3-2

February 28, 1991
Washington, D.C.

Good Morning. I am Jim Coates. I live in Grays Harbor County in the state of Washington.

I began working in the timber industry 27 years ago. I have worked in the woods as a logger, in the production end in the mills, and completed apprenticeships in 1968 as a millwright/electrician. In 1986, I was hired by the International Woodworkers of America Local 3-2 Aberdeen, as a business agent.

In June of 1990, Local 3-2's membership plummeted due to logging mill closures. Because of that drop in membership, I was scheduled to return to my job as a millwright-/electrician. The company I worked for has allowed me to take a leave of absence to work as an outreach worker to help former timber workers and their families as they try to make the difficult transition from their timber jobs to retraining and new jobs.

I am here today to speak to you from my heart and from my knowledge of who these people are and what is happening to them. These people are a group of folks that have worked in one of the most dangerous professions in the world. They've worked through every weather condition possible, sometimes in terrain that is 3,000 feet over a canyon. This terrain can be so tough that a worker may wear out a $300 pair of cork boots in 6 months. They may work in snow up to three feet high in conditions so bad that a $75 set of rain gear wears out in a week. They work in hot weather getting bit by insects and stung by bees or yellowjackets, yet they start their day when the crummy picks them up at 3:30 AM and delivers them out to the woods.

This is a guy with rough, calloused hands that can hold his new born baby with the gentleness of an surgeon. This is a family man, a church member, a community leader, the man who travels late at night to watch his children play in a sports match and still is on that crummy at 3:30 AM the following morning. This is a person who loves what he does, how he lives, and who he is. This in not the public's stereotype of the rough, beer drinking, tobacco chewing, carousing lumberjack.

The federal timber supply decision has now mandated that these people change what they do and who they are. First, I would like you to understand level of distress that has already occurred in the timber communities. There is a large population of workers who have already been unemployed for over a year and a half. Many of them have already moved on due to mixed messages coming from the fede-

ral government about the endangered species act and federal supply, and others have tried to hang on to each ray of hope, and plenty of rays have been offered.

These people have not wanted to believe that their ability to work in their profession was going to be taken away. Just as you, would have a hard time adjusting if you were told that your jobs would be gone.

Now, slowly but surely, peoples assets are disappearing. Families have been surviving on savings, their children's college fund, and by selling personal belongings such as chainsaws, pickups, with their homes being foreclosed by the bank. When a logger parts with his chainsaw or pickup, he has reduced his ability to cut and haul the wood that heats his home to keep his children warm or make a living.

Communities assets and resources are also disappearing. When you have this major of an impact on a community, the tax base decreases, while the need for essential services such as police, firemen and domestic violence programs increase. The following statistics reflect a part of what my community is facing:

1. Community Action Center Assistance: 32% increase in new emergency requests during the last year.

2. Union Gospel Mission: In 1990, there has been a 25% increase in requests for shelter assistance.

3. Children's Free/Reduced Lunch Program: 30% to 60% of K-12 children in Grays Harbor County receive free or reduced price lunches. In one Hoquiam elementary school, the percent served is 69 percent. In one class in an outlying area 21 out of 22 students receive free lunches. People only receive these free or reduced lunches as a result of a low family income.

4. Department of Social and Health Services: In 1990 there was a 21% increase in the number of families receiving AFDC (Aid to families with Dependent Children). A whopping 10% of all families in Grays Harbor County receive food stamps.

5. Financial Aid: Grays Harbor College reports that 77 percent of their full-time students are economically disadvantaged and eligible for Financial Aid.

I would like to now share with you some of the hardships I have personally seen happen.

March 15, 1990 I became an outreach worker for a special timer project. We had some limited EDWAA funds to help workers retrain or find other jobs. By mid-April we were out of retraining funds.

These EDWAA dollars help to pay the costs of retraining such as tuition and books, but do not provide any ongoing support to the worker and the family. Because those that opted for retraining were running out of unemployment insurance or aren't even eligible and their families were going hungry we have done our best to try and make do by

setting up a barter economy to try and keep these families fed and warm. We started:

- Victory Gardens. These gardens go to feed workers and their families. The gardens also supply needed produce to the local food banks who in return agree to allow a family to access services more than the 2 times allowed in a six month period.

- Firewood Program. We became aware of families going without heat because they could not afford to turn on the furnace, and those with wood stoves had already sold their chain saws, limiting their ability to provide a low cost heat source. We leased a wood yard and created a network of volunteers to cut, split and deliver the wood to those in need. Some of the people that we deliver wood to have been without heat for over a week with small children in the home.

- A self-help television program through the local Christian channel. This weekly program speaks to what resources are available in the community and how a family can access help. Some of the segments are as basic as how to make nutritious meals from what you can get at the local food bank. .

- Operation Christmas: We knew many children and families were going to go without Christmas. By working with the active club, known on the harbor as the Sunshine Kids, we distributed clothing, toys and food to 1,224 children during the holiday season. This represents a 50% increase. We were fortunate to have over 40 used bicycles donated. We bought new wheels and parts and restored the bikes, and made sure 40 additional kids had a merry christmas.

- Food Banks The need for food bank services has increased 14%, with donations decreasing 28 to 45%. Rationing has occurred in most of the outlying food banks. One food bank is so low on funds it cannot afford to buy milk or formula.

And the resources we have just aren't cutting it. Because of the inability of local food banks to meet the increased needs, we have had to use produce that has been designated as pet food. We have recleaned and resorted this produce to substitute for what the food banks can't provide. This is being used to feed 9 families currently and more are asking for this help. Just this week we had to search out a way to get an additional donation for food because we found a family whose parents had not eaten for two days so the children would have something to eat.

Currently, there are families in remote areas of the county living in camp trailers with no water or electricity. Locally, the Union Gospel Mission (for men) is full. Friendship House (for women and children) is full. Providence House (for families) is full.

Subcommittee on Human Resources
Testimony of Jim Coates
February 28, 1991

Still these people want to believe that there is hope. Thank God, they are not just giving up.

They are having to look at options that are difficult, that impact the family, how they live, where they live and how much they are willing to lose while they are making the transition.

One important option that many are considering is retraining. They are having to look very closely at how they can maintain their families security if they choose to make the long commitment that retraining requires. It is as basic as how a person can study and stay in school when their children are hungry.

Currently retraining programs fall short of the mark. They have no way of maintaining the family as the worker retrains. They are severely lacking in the ability to meet emergency needs. As family emergencies happen, we often see workers drop out of their retraining programs and thus they are considered failures. Some are committed to finding a way to get through the training in hopes of a brighter future. They are doing this at great hardship to themselves and their families. I would like to share the stories of two people who are making the commitment to training.

Sandy is a 28 year old, former mill worker. Sandy and her husband both worked at a mill in Tumwater. They have one child. Sandy and her husband have been unemployed for almost a year. After both of their unemployment claims ran out Sandy's husband found a delivery job at $5 an hour.

Sandy wanted to retrain in the health field where she believed there would be good job stability. She requested RN training. 250 people applied for 35 training slots, she scored in the top of those who applied and was accepted into the program.

JTPA, EDWAA, Title III agreed to fund Sandy's training program that started in September. Sandy came to me because her family was having a hard time making ends meet. She wanted to know if I was aware of any part-time jobs. I was able to locate a part-time job as a certified nursing assistant for her. In addition to her part-time job, she was maintaining 21 credit hours in her training program.

In October, Sandy and her family were victims of a flood and became homeless. They lost everything, including the uniforms she needed for work. The flood and its aftermath traumatized her son and Sandy had to quit her job to spend time with her family. They currently live in a camping trailer on their property. Sandy is still in school and the family is struggling to make ends meet.

My point in talking to you about Sandy is that she has the fortitude to keep trying to make a better future when she has had to deal with circumstances beyond her control and more swift and severe than most people ever have to deal with.

On the other end of the county, you have Candy and Dale and their four children ages 4 to 14. Dale was an independent

Subcommittee on Human Resources
Testimony of Jim Coates
February 28, 1991

log truck driver, and Candy was a homemaker and mother. As an independent truck driver, Dale had no unemployment insurance. Dale felt he had no choice but to retrain in order to gain security for his family. There were no training dollars to pay for Dale's training. I told Dale to check with the vocational technical institute he wanted to attend and apply for a PELL Grant. He was awarded a grant for this school year, but will not be eligible for the school year starting September 1991, because of earnings in the first part of 1990.

Dale is currently attending Tacoma Technical, receiving only the PELL Grant as assistance. Dale and his family live in Amanda Park, 80 miles away from the training facility. Three days a week Dale stays with his sister in Elma and travels 102 miles round trip to and from training. The remaining 2 days a week Dale travels 160 miles back and forth from Amanda Park, so he can spend some time with his family. The training course Dale is taking is 22 months long.

Dale is not eligible for DSHS assistance because he still owns his log truck. He has been trying to sell the log truck and home, but there is no market for either. He has gone from making a family wage to poverty and still is not eligible for a poverty program WELFARE. He and his family have slipped through the cracks.

I have recently been able to raise $255.00 to go towards the cost of gas to get Dale back and forth to his training program. I have also worked with the food banks to keep the family fed. Dale's wife Candy is currently working part time sewing back packs and is taking sewing into the home.

The only means of recreation within 40 miles for their boys ages 8 and 10 years old was the Boy Scouts. The family couldn't afford the $14.00 membership fee so the children were forced to quit. The boys do odd jobs around the neighborhood to raise money to help their mother make ends meet.

Dale and Candy's situation is typical; they are people willing to make sacrifices in an attempt to retrain and equip themselves for a more secure future. The sad thing is they are likely to fail. The reason for failure won't be a lack of commitment on their part, but rather, a system that doesn't provide the basics to keep families safe while the worker retrains.

There are very few part-time service industry jobs in Grays Harbor County. McDonald's and other fast food restaurants are only allowing the kids to work 8 hours per week.

These workers and their families are already traumatized by the loss of a job due to federal decisions. We need to allow people the dignity of being able to maintain their homes and feed their families as they transition to training for new occupations.

These two workers and their families are only two examples of many. There are hundreds of people in my county waiting

for the state to receive funds from Department of Labor for retraining. There are many more throughout the state in the same situation. Still there will be no family security within the grant from Department of Labor; no safe way to get through this transition period.

I am asking that you consider giving our timber families the same hope that has been given to coal miners and defense workers who have also been hurt by actions of the Federal government. If you need to make a decision to cutback on the Federal timber supply I hope you can understand the need to spread the human cost of that decision a to all our nation's citizens not just the hardworking timber families in our region's rural communities.

While the urban areas of the Washington state economy might now be doing better than other parts of the country our rural communities are suffering mightily from what is happening to our timber economy. These rural, timber-dependent communities don't have the economic diversity of the urban areas. Workers who lose their jobs are frequently far away from jobs in other sectors of the economy and far away from training centers.

For these workers to adequately make the transition to a new way of life I believe it is necessary for to extend badly needed training and income support services to these workers as are provided to workers hurt by trade policies provided through the Trade Adjustment Act and for coal miners through the Clean Air Act.

I believe that we need three things that could be part of what we could call the timber workers fairness act:

1. A training program of adequate duration to provide a transition to family wage jobs.

2. Training allowances to help families survive through the retraining program. Unemployment insurance is only provided for 6 months and training can take as long as 18 to 24 months. Many workers aren't eligible for unemployment either because they have been self-employed (loggers and truck drivers) or because they haven't worked enough hours to qualify for benefits.

3. Support services to provide for needs such as child care, transportation and emergency medical services.

We need your help. We must allow these people to maintain their dignity and give them a viable option to make their way to another life.

They are not afraid of hardship, they have lived in it and worked in it for many years. They are afraid of poverty, of not being able to feed their families designated pet food, of cold homes and no hope for their children. Most of all they are afraid that their dreams for a good life and security are over. Please help us give them back hope.

## SERVICES TO TIMBER WORKERS

| | EDWAA DISCRETIONARY GRANT | TRADE ADJUSTMENT ACT (TAA) | TIMBER COMMUNITY FAIRNESS ACT |
|---|---|---|---|
| Support Services | Combined supportive services limited to no more than 25% of total grant amount. | | |
| Transportation and Per Diem | | Payments while in training outside the local labor market area. | Payments while in training both local and outside local labor market area. |
| Child Care | | -0- | Reimbursement for number of days in training. |
| Emergency Medical | | -0- | See below |
| Health Care | -0- | -0- | Pay COBRA or basic health plan |
| Direction & Administration | SESA/PIC Labor-Mgmt. Committee | SESA | SESA Labor-Mgmt Committee |

DOL - U.S. Department of Labor
EDWAA - Economic Dislocated Worker Adjustment Assistance
PIC - Private Industry Council
TAA - Trade Adjustment Act
SESA - State Employment Security Agency

## SERVICES TO TIMBER WORKERS

| | EDWAA DISCRETIONARY GRANT | TRADE ADJUSTMENT ACT (TAA) | TIMBER COMMUNITY FAIRNESS ACT |
|---|---|---|---|
| People Eligible | 1,525<br>Excludes currently EDWAA enrolled | 1,500 | 7,500 |
| Eligibility Requirements | Limited to direct timber jobs. | • Workers whose companies have been certified by DOL as impacted by foreign imports | Families whose dislocation directly results from the reduction of forest fiber enhancement, transportation or production. |
| Program Duration | Maximum program length of 18 months | Up to 104 weeks for each individual | June 1990 - October 1995 |
| Training | Occupational Skill Training<br>• Must include 60% of all enrolled<br>• 50% of total grant must be spent for direct training.<br>• Total cost per participant cannot exceed $2,672 | 104 weeks of training:<br>• literacy, basic skills vocational or academic<br>• Reasonable cost as set by state | 104 weeks of training:<br>• career orientation, literacy, basic skills, vocational, academic |
| Training Allowances | -0- | Maximum of 48 weeks training allowances (after exhaustion of UI equal to Weekly Benefit Amount) waiver of training provision | Allowance for full length of training payable at UI Weekly Benefit Amount or lower level income standard, whichever is higher (and include waiver of training provision) |
| Job Search | Limited job search assistance (is part of total cost per participant). | Out of area job search assistance. Maximum of $800.00 per participant (may be multiple trips). | Out of area job search assistance. Maximum of $1,500 per participant (may be multiple trips). |
| Relocation | Limited relocation assistance (part of total cost per participant). | 90% of relocation costs plus up to $800.00 lump sum payment. | 90% of relocation costs, plus up to $800.00 lump sum payment. |

Acting Chairman DOWNEY. Thank you, Mr. Coates.
Ms. Countryman.

**STATEMENT OF KATHY COUNTRYMAN, RESEARCH AND DEVELOPMENT DIRECTOR, UNEMPLOYMENT INSURANCE PROGRAM, DEPARTMENT OF EMPLOYMENT SECURITY, STATE OF WASHINGTON**

Ms. COUNTRYMAN. Good morning, Mr. Chairman.

I am Kathy Countryman and I work in a very small group within the employment security department in Washington State that does research and development.

For several years we have been working on a number of different projects that kind of look at options for the labor market of tomorrow.

I feel so strongly about some of the things that Jim has said that I kind of want to position myself here. I never for a minute forget that I am in public service and that the kinds of things that I am looking at affect real people.

On the other hand, I work in research. I do not have the sophistication of some of the researchers you are going to hear from later, but I care enormously about the people that are involved.

I want to thank Mr. Chandler for making a point for me that the unemployment insurance system is not charity; that the employment and training system in this country represents the investment that we put into the human side of our market economy.

It does that really by supporting the workers and the individuals. It not only can put bread on the table of the breadwinner, but it also makes sure that the grocery stores stay open when the mill closes.

That money that is spent in the economy has a meaning especially to the communities that are as hard hit as Grays Harbor is where Jim lives.

At the same time, that really guarantees in the long term that employers have able workers available. The employment and training system is something that is there for everybody. It is very important to our society that we use it to protect the investment that we have already made in our workers.

They have received some kind of education. They have training. They have experience. We could let those all go to waste if we do not invest in our employment and training system.

But at the same time, we are dealing with individuals. We are dealing with the kind of folks that Jim told you about. We are dealing with all kinds of different situations and when we have done our various projects, we have kept it in mind that there are things that work, but there are different things that work for different people.

In other words, it is real tempting to want to say there is one blanket solution, that if we do this, this is going to fix everything. But that is simply not the case because we are talking about human beings. The strategies that we have looked at work for different groups of people.

Back in about 1985, my department did sort of a strategic planning exercise and we took a look at the future in preparation for

getting ourselves to where we should be in 10 years, in 15 years. We noticed the same kinds of things that have since been brought out in things like Labor Force 2000, that we have a real difference in the supply side of our labor force, that we expect more new entrants to be coming from women and minorities and fewer from youth.

We looked at the organizational side, that the big organizations are changing. They are slimming down and the kind of work that they use to keep permanent staff on now they now contract out to smaller businesses or to temporaries.

That kind of thing is already showing up in the fact that we have tremendous growth in temporary agencies and that most of our new job creation is actually occurring in small businesses rather than in our very large ones.

So we need to look to that kind of future and see how different the unemployment insurance system, the employment and training system needs to be to meet the needs that are going to be there.

The economy itself is changing. We talk about moving more into an information economy. We talk about a global economy. We are moving away from the extraction economy, the timber and the coal. We are moving away from the manufacturing economy. Things are different and we compete in a world environment. Our workers do and our employers do.

In the case of Mr. Coates, we are looking at a brandnew phenomenon in this country. Just in the past few years we have had a move to protect the environment that comes at the expense of people's jobs. That is something that is new that the unemployment insurance system faces.

In that context I want to tell you just very briefly about some of the things we have done. One of the things that we looked at, it does not really affect reemployment, but we looked at using the latest technology to help people get their benefits faster. We would allow them to call in to an automatic response unit and place their claim over the phone and then we would do an automatic transfer to their account. We never had to have a check passed through the mail.

Or we would let them go down to the local cash machine and draw their benefits directly from that. This shortened the time that it took to get people their money, and I think when you are looking at the kind of situation you have across the country—of long lines outside your employment offices—this might be something that could appeal.

Some of the other States have picked up this option of telephone reporting. Our State did not implement it. We studied it. We think it is a good idea, but we frankly cannot afford to implement it.

We have three programs that look totally at reemployment incentives, not just incentives, but different kinds of strategies for reemployment of unemployment insurance claimants.

We have always taken the position that reemployment is part of the unemployment insurance system. I want to make you aware that not everybody takes that position. Some folks would prefer that it just remain income maintenance and reemployment is the concern of other areas.

In the first case, we looked strictly at the work search requirement. Most States require that to be eligible for benefits a claimant has to make an active search for work. But nobody in the country in the 50 years that the system had been in operation ever said what is an effective work search. How can the agency direct that person to look for work in a way that will help them find their job? We were just starting to address that question.

So we looked at four different options from a very liberal option to one that had a lot of constraints. Basically, you go out and you make so many employer contacts and you report them back to us. We looked at an option that is very individualized, but we did not always have the support services to back it up. And we looked at a very strict option that called people in and made them attend a job search workshop.

Over the first year after the project, the kind of results that we got from that was that with no work search assistance whatsoever people tended to draw benefits about 3 weeks longer on the average. So we feel that the work search efforts in some way are a cost-effective strategy.

The strictest group, the ones where we called them in and made them use the phone banks and put them through a couple of days of training, showed a shortening in duration on the average of about half a week. But this really only seems to be suitable for about 15 to 20 percent of the population.

We also looked at reemployment bonuses and we are just in the process of reviewing the final reports with our researchers from the Upjohn Institute and with the Department of Labor. That, too, shows some promise in some areas, but I really do not have enough information to comment on whether or not I think it is a great idea at this point. If it is, it is probably a good idea for some and not for others.

Another very innovative project that we were fortunate enough to do was a self-employment incentive. Self-employment as part of the transfer payment system is a standard in just about all the other industrial countries, all of the countries that have employment and training systems.

This was the first look in this country at that option. We took claimants, invited them into a program that would give them training, information—help them make the selection of whether this was appropriate for them, individualized counseling, work on their business plan, and when they were finally ready to open the business what we did was mimic a cash out of their unemployment insurance benefits. We gave them a lump sum payment that averaged over $4,000, but for some folks went as high as $7,000 as SEED capital to start their business.

Now that is an option that is only suitable for a few, but it happens to be some of the ones for whom no other option is suitable.

We have people—for instance, a woman over 50 who started a day care center. Again, one of the kinds of general leads we have to support employment is good day care in our communities. I feel that she is a pretty strong example of some of the pluses that we have in this kind of system.

What we basically learned from all this is that there are a group of people for whom simply the income maintenance is the right

43-247 0 - 91 - 3

thing to do. Folks that are employer attached, that are going to go back to their previous employer, it is right for the business and it is right for the worker that they do that and that we do not put work search constraints on them. They are going to make more money if they go back and their employer has the benefit of the training.

The same thing more or less applies to people who are in union referral programs where they get their jobs through the union. There may be a lot of different jobs available, but with the union referring them out, they will go in their turn.

I really think that anything that we do with reemployment services has got to make allowances for those folks—pure income maintenance is the best. It is also true when that comes over the long term and we have problems with the economy that means maybe they will not work for a long time, that income maintenance on a continued basis is the only real service that we can provide in a recession when there are simply no jobs available.

There are folks that come into the unemployment insurance system that do not have that union attachment or that employer attachment, but they have job skills where there is some demand in their labor market and their community. Some times those folks need a little bit of help making the connection. There are different models for treating them. One of them is that controlling, constraining model that says do this or do that or you will not get the benefits, and that works for some people if that is what motivates them.

On the other hand, we have more—some people that function in that capacity better if we do something enabling, if we help refer to them to jobs, the kind of things that the employment service has done over time. If we say, "Gee, you could use some help in brushing up your job search skills," and put them into that kind of program, those people will be helped. I regard those more or less as enabling options.

There are other enabling options that work in different situations because there are also workers, sort of the classical structural unemployment, the folks who are displaced because they are replaced by cheap labor overseas or by changing technology. Their skills are no longer relevant. If we want to enable them to be functional in our labor market, we have to give them some kind of retraining.

The unemployment insurance system is fairly effective in supporting that kind of training as long as it is short term. But unfortunately, the need is frequently for long-term training. In other words, we can pay benefits while people are in training for up to 6 months. In our State it is a little bit longer, but if you are in a year-long program, you have to make that decision on what you are going to do at the end of that period of time without the income support.

Finally, I think that we have situations where we have whole communities going downhill, where we have them so dependent on a single industry that we have to be as creative as we can in finding other solutions, perhaps in working with the economic development professionals. I think that self-employment is one good model for that, but, again, it is only suitable for a very few people.

In order for the State to bring this together, not just for the special conditions here, but overall, I think that we have some real needs. We need to be sure that we have some flexibility, that we have kind of a menu of services so that we are able to help various types of individuals and really enough staff that we have the ability to do that kind of case work that we find the right solution for each individual.

That really takes more funding for the employment and training system than we are getting right now. In fact, I would say that we have dropped back in our ability to do work search assistance and work search monitoring in the past 5 years. I think that every year we drop back just because we have reduced funding and we have to turn our attention to the absolute basics.

I know that you are hearing from a number of people and thinking about improvements to the system. I ask that your reforms be enabling to people, enabling to the States in their efforts to help people, and I really do believe that you should invest in the Nation's workers and work for us. In doing so you are investing in the economy.

I think these things are necessary. They are necessary for Jim and his friends, but they are also necessary for my children who are not even in that labor force yet. If you pay attention to those things, I really pledge to support you in any way that I can. Thank you.

[The prepared statement follows:]

STATE OF WASHINGTON

**Testimony for**
**Public Hearing on Job Search and Re-Employment Services**
**for the Unemployed**
**before**
**the Subcommittee on Human Resources,**
**Committee on Ways and Means,**
**U.S. House of Representatives**

by
Kathy Countryman
Washington State Department of Employment Security

February 28, 1991
Washington, D.C.

Good morning Mr. Chairman and Committee Members. My name is Kathy Countryman, and I direct a research and development group for the Washington State Employment Security Department. In the past six years, we have run four major demonstration projects that look at options for the Unemployment Insurance Program in the labor market of tomorrow. I would like to tell you something about these projects and what we have learned from them.

First, I want to put the Unemployment Insurance program in context. It is only a nation with a market economy that needs an employment and training system, including an unemployment insurance system. After all, employment security is perfect in a socialist economy; job loss is not the problem. The employment and training system clearly supports the freedom of choice inherent in a market economy, and its effectiveness in that framework should be of prime importance in the design of the system. Unemployment insurance is not charity; it works for our economy by supporting the workers and employers of this country. Their needs are urgent, compelling, diverse, and frequently conflicting.

Unemployment insurance puts bread on the table of families that lose a breadwinner; allows that worker the economic margin to seek work that fits his or her training and experience; assures employers that able workers will be available over the long run; provides income so that mortgages are paid and the grocery store doesn't close along with the mill. From a societal point of view, we all protect the investments we have made in our workers, in their education, in their skills, in their previous experience; and with UI as our only automatic countercyclical measure, we apply some brake to the downhill ride of job loss and recession.

In every unemployment case we deal with very individual circumstances. The people themselves are diverse: electricians, loggers, accountants, day care workers, youth, Native Americans, single mothers and older workers. The situations are never the same. We pay unemployment benefits to people who can't build roads this week because of the rain, and to migrant farmworkers who have picked their way across the country. We pay benefits to victims of structural change; those who may have worked at their job for twenty of thirty years until technology or foriegn wage competition displaces them as "inefficient." More recently, we also paid benefits to a new class of displaced workers; those whose livelihoods are deemed threats to our environment.

We are dealing not only with the classic version of temporary unemployment, but more recently with the impacts of a constantly changing economy caused by new technology, global competition, and protection of our environment.

While the UI system has worked well for our economy during the last 55 years, we in Washington State want to make sure the program can address future worker/employer needs. We have all read about the shift to a service, global, and information economy. These trends are going on right now. Labor Force 2000 talks about the future employers can expect as new entrants to our labor force will be more predominately women and minorities.

Our workers, too need to consider their options. The large employers will slim down, retaining only a core of permanent long-term staff. Tasks that were formerly done by permanent workers will be farmed-out to temporaries or subcontracted to small speciality firms. This trend is showing already in the growth of temporary agencies and in the fact that most new jobs are in small business.

**Subcommittee on Human Resources**
**Testimony of Kathy Countryman**
**February 28, 1991**

Does the UI system need to change in response to these trends? To answer this question, consider that is was created nearly 60 years ago in a market that emphasized extractive industries and manufacturing, not services and information. You should also consider that most of our covered labor force used to consist of white male heads of households, with very few single mothers or dual wage earners or minorities. We must also consider the slow economic death of communities that have been heavily dependent on single industries, such as Detroit, Pittsburg or the logging communities of the West.

When we in Washington State looked at these employment trends and economic transitions, we wondered how we could try to make the system more responsive to the people we serve. In Washington State, we are willing to take risks, to see if we can learn anything by doing something different. We've operated four major demonstration projects to look at alternatives.

Our Electronic Benefit Distribution Project looked at using the latest electronic technology to pay benefits. We used automatic response units so that claimants could file for benefits over the phone, at their own convenience. We then gave them a choice of payment methods. They could get the traditional check, or a direct deposit to their bank account, or they could draw from the cash machine. By using the speediest of these options, eligible claimants could have money in hand within a few minutes - without any agency staff involvement.

I am also here today to discuss three special demonstrations involving reemployment methods that the State of Washington has undertaken with the help and cooperation of the U.S. Department of Labor.

The first was the Washington Alternative Work Search Experiment. We were trying to find the best possible work search policy so that we could direct our clients to look for work successfully, but when we reviewed the literature, we found that states had different policies because they had always had them, but nobody really knew what worked! So we designed an experiment that looked at four different interpretations of this legal requirement, ranging from no direction to a comprehensive and time consuming job search training class.

Our second demonstration program was the Washington Reemployment Bonus program, which examined the effects of offering a cash incentive to workers who found a job by a certain date and retained it for four months. Although the results aren't entirely clear yet, the increase in motivation definitely affected some of our clients.

So we were looking at ways to expidite that connection of the client to the new job. But in no case did the UI system ever create a new job. We decided to tackle that problem too. So our third demonstration program was the Washington Self-Employment & Enterprise Development (SEED) program to assist the unemployed in creating their own jobs. We did this by forming a partnership with the state Trade and Economic Development Department. In this joint venture, we provided a client centered approach that included information and self-selection, business training workshops, individualized counseling and business plan development. When our clients were ready to open their doors, we provided a SEED grant equivalent to a cashout of their benefits.

The final results are not in on this project, but my personal observation tells me that this can be one effective strategy for the labor force of tomorrow. We had one client over 50 who could not find work but opened a daycare center. Another single woman was able to combine her role as mother with that of wage earner by running a design and desktop publishing business from her home. Still another Mexican American provided employment for his mother and brothers and sisters by opening a sucessful restaurant, and is looking to open his second business.

What have we learned from all this innovation and research? Simply this: There are several reemployment strategies that work, but none that work for everyone. Solutions should be as individual as the problems they address.

For instance, in some cases simple income maintenance is the best strategy for our workers. This is true when he or she has a strong chance of returning to a prior employer, or when a full-referral union hall will soon assign that worker to a job. In such cases, any additional reemployment requirement or assistance would negate some of the best effects. These workers tend to retain their wage levels and suffer less stress during unemployment; and the employers get the benefit of an already trained and specifically skilled workforce. The UI system already works well for this group, and I urge you to retain this as a primary focus of the system.

For workers who do not have these advantages, there are other workable strategies. Perhaps they need additional encouragement or direction or assistance in job search skills. Perhaps they will gain from direct job placement attempts. Enough workers fall into this category that our research shows a significant impact on duration when we take special pains with them. There are a few major models that seem to work, and of course they work for different groups.

One model is controlling. We can tell a client to make so many in-person employment contacts, report them, or be found ineligible for benefits. This will generally work if in-person contacts are a major source of job leads in their occupation, and if their job search behavior was less than optimum. Part of the control model is also "eligibility review." Sometimes such strategies don't result in reemployment, but do shorten the duration on UI by increasing the difficulty in claiming benefits.

Another model is to provide an incentive that does more or less the same thing; the concept behind the reemployment bonus is to pay people to optimize their job search. Again, it works for some people.

Still another strategy is enablement, which has been the major focus of the Employment Services for many years. For instance, we can provide a client assistance with a resume, referral to a job search skills class, or direct job referrals. For UI clients, this strategy seems to be at its most effective when ES and UI are integrated functions. Relocation assistance is also a form of enablement, but is not useful for those committed to staying in their community.

So what about clients who have no skills that are marketable within commuting distance? Retraining is frequently an enabling option, and UI can help in supporting clients during short-term training. We could help more if we could provide support for longer terms, like those under Trade Adjustment Assistance. Last year you made similar provisions for displaced coal miners under the Clean Air Act. We would like you to consider something similar for our displaced timber workers. In many case, these are models for solving ongoing problem in our global economy and perhaps you could consider them as permanent enhancements to America's employment and training system.

An finally, what about the unemployment situations that affect entire communities? It is one thing to let an industry wither and die, and quite another to let a dependent community die. Can we assist these people in creating their own jobs and their own economic futures? Can this country afford to do as others have done and use the unemployment insurance system to bootstrap new enterprises into exixtence? Can we afford not to?

Reemployment assistance of various kinds can be helpful. It is also cost effective. But what works for one will not work for another. The best approach that can be taken is to provide a plentiful menu of options and to assist individuals to choose wisely from that menu. Individual assistance on a case-by-case basis is more expensive that what you are currently funding; so are training extensions and job search workshops and other enhancements, but I believe that they are all investments that can pay for themselves.

Washington State has long taken the position that the UI system ought to be a springboard to reemployment, and were on the verge of implementing a highly individualized system in 1986. The plans were abandoned when federal budget cuts forced us back to basics. If you want us, your state partners, to provide equitable, effective, and efficient reemployment services, then I ask that you trust and support us.

And what do we need if we are to provide a world class employment and training system? We need to increase state capacity and provide staffing that can accomodate individual needs and offer a wide menu of services. We need flexibility and discretion, not a mandated, blanket federal requirement that will work for only a few. We need authorization to do creative innovation at the state level, for the excitement of innovation is truly contagious. We need the freedom to interact and integrate with other programs, with our natural partners. And this should include not only the Employment Service and the Private Industry Councils, but also include all education and training as well as economic and community development organizations, and maybe some that seem less obvious, like juvenile justice and transportation.

I ask you to remember these needs as you frame your improvements to the system. I ask that your reforms be enabling, that you set the system free to truly help all unemployed workers, not just those that fit old stereotypes. I believe that you should invest in this nation's workers and then protect that investment. I believe these things are necessary not just for the timber workers in Grays Harbor County but for my own children and their future. If you do this, I pledge that I will help you in any way I can. I thank you for listening.

Acting Chairman DOWNEY. Thank you, Ms. Countryman.
Mr. Hanna.

**STATEMENT OF JAMES S. HANNA, DIRECTOR, EMPLOYMENT SECURITY RESEARCH, EMPLOYMENT SECURITY DEPARTMENT, STATE OF NEVADA**

Mr. HANNA. Mr. Chairman, members of the subcommitee, my name is Jim Hanna and I am the research director for the Nevada Employment Security Department.

May I begin by saying I am very pleased to have the opportunity to appear before you today and discuss Nevada's experience in providing job search and reemployment assistance to UI claimants.

We have conducted several projects in this area over the past 13 years and all of these projects have amply demonstrated that the employment security system can do a better job in serving UI claimants.

I have prepared a written statement and submitted it. So what I would like to do now is briefly describe what we have been doing and some of the results of our experiments.

The essence of our efforts over the past 13 years are really very simple. We have been trying to do two things: one, focus on outcomes as opposed to processing people through the system; and two, experiment with a different delivery system.

We have been attempting to reduce UI duration through two avenues. The first is disqualifying claimants who do not meet the eligibility requirements of the law and the second is by providing reemployment assistance to claimants who do meet those eligibility provisions.

The second aspect of our work is again very simple. We have been experimenting with the use of teams as a delivery system for serving claimants. A team consists of an ES and UI interviewer. This is opposed to the normal system where you go into a local office and "pick a number." Our intent in using teams is to add a personal element to the process. We first started in this business back in 1977. We went to the San Francisco regional office of the Employment and Training Administration with a proposal to provide what we called intensive ES and UI services to claimants. The goal of the project was simply to reduce UI duration.

We ran the project for a year. There were four two-person teams. They were spread throughout the State of Nevada and we served some 3,500 claimants.

There were no guidelines other than if they did not qualify for UI, get them off of UI. If they did qualify for UI, get them a job some how or another.

The results, I think, were very, very significant. When we compared the people who participated in the project with a control group of claimants, we found that their durations were some 3 weeks less. So the system reduced the amount of time the claimants stayed in UI by 3 weeks. As to why, claimants were three times as likely to be disqualified if they participated in the project and 3 times as likely to get a job through the employment service.

I would like to add that relatively few people actually got a job through the employment service. Most claimants ended up getting

a job on their own. What we found was that it was a combination of support, encouragement, and labor market information that basically got people going to the point where they ended up getting their own jobs.

From a cost-benefit standpoint, the project was very successful. We estimate that for every dollar spent on the project, some $4.22 was reduced in UI outflow.

We got involved again some 9 years later. It took 9 years not because we were simply sitting back doing nothing, but because we were unsuccessful in obtaining further funding.

So what we did in 1987 and 1988 is we put together a proposal using internal employment security monies to do basically the same thing that we did before. Our intent was to run this pilot and hopefully to have positive results to present to the Nevada legislature.

The project was basically similar to what we did earlier. That is, the team approach and get them a job or get them off of UI. There was an additional element, that being a training component.

What we did was allocate half of the funding available for the project for training, with training to be provided by the Job Training Partnership Act service delivery. We contracted with those entities at a cost of $3,000 per trainee to provide training.

The thinking here was that there are a lot of claimants, and I think Kathy alluded to this, who need more than job search assistance. They are individuals who face barriers to employment. Unless something is done, you can get them a job, but in 6 months to a year they are going to be back in the office again unemployed.

The vast majority of people who participated in the second pilot effort simply got regular ES and UI services. For this group we found that their duration was reduced by 2.1 weeks. From a benefit standpoint, for every dollar spent on this aspect of the project trust funds outflow or expenditures were reduced by some $2.39.

You might note from my earlier remarks that it was not quite as successful as what we did before, but I think there are several reasons for that. Probably the major one was the inclusion of the training element. While we served relatively few people in training, this aspect took a considerable amount of the team's time. Consequently, they did not have as much time to deal with the regular claimant population. In any event, it was fairly successful.

Unfortunately, the experimental design that we used and timing did not allow us to make any quantifiable estimates of what impact training has on future UI duration. The problem is that when a person is trained he is imparted with skills that will be with him for a long period of time and that will affect his experience well into the future.

However, we did estimate that for training to be cost effective or at least to break even, that future UI duration of participants would have to be reduced by approximately 2 weeks. From experience, this is certainly not out of the question. It is a reasonable thing to expect training to do.

As I mentioned, the intent the pilot was to get some results and present them to the legislature. About half way through the project in 1989, the Nevada Legislature convened and we presented prelim-

inary results that were similar to what I have been talking about today.

The legislature went ahead and expanded the program statewide and extended it for 2 years. Funding is provided by a five one-hundredths of 1 percent assessment on taxable payrolls in the Nevada unemployment insurance system. So Nevada employers are now paying for the program that is in operation today. Over the 2-year period, it has generated some $5 million in revenues to support the kind of efforts I have been talking about.

The program is scheduled to expire on June 30 of this year. However, we have submitted legislation to make it a permanent part of the Nevada UI program. At this point we are optimistic that the legislature will see fit to enact it. I think it works and I think they would agree to that.

In summary, Mr. Chairman, we believe our experience supports the idea that given adequate resources and some flexibility, the employment security system can provide effective job search or reemployment assistance to claimants and it can do so in a cost effective manner.

That concludes my testimony. I would be happy to answer any questions you may have.

[The prepared statement follows:]

**STATEMENT OF JAMES HANNA**
**DIRECTOR, EMPLOYMENT SECURITY RESEARCH**
**NEVADA EMPLOYMENT SECURITY DEPARTMENT**
**BEFORE THE**
**SUBCOMMITTEE ON HUMAN RESOURCES**
**COMMITTEE ON WAYS AND MEANS**
**U.S. HOUSE OF REPRESENTATIVES**

February 28, 1991

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today and discuss some of the activities Nevada has undertaken in the area of job search and reemployment assistance for unemployment insurance (UI) claimants. Before commenting on our specific projects, I would like to discuss briefly what prompted us to get involved in such activities.

## BACKGROUND

Nevada has long been concerned about the ability of the employment security system to provide unemployment insurance claimants with effective job search and reemployment assistance. In our estimation, the difficulty in providing such services stems from two basic factors. These being:

1. The organizational separation of the employment service (ES) and the unemployment insurance service.

2. The absence of resources within the employment security system for skill training.

While the ES and UI operations are co-located in Nevada (as is the case in most states), they tend to operate as separate and distinct programs--each marching to a different drummer. In spite of good intentions, this separation makes it difficult to merge the two programs as in providing job search and reemployment assistance for UI claimants. What stems from the organizational separation is a different set of priorities.

For example, the UI system is process oriented as opposed to outcome oriented. That is, state UI programs are held accountable for providing efficient and timely services. Claims must be processed, issues adjudicated, and payments made within time frames specified by the national Unemployment Insurance Service. However, there are no guidelines or incentives for reducing the duration of UI. A long-standing observation in Nevada is that it is of little concern that a claimant files and draws 26 consecutive weeks of benefits and then exhausts, but only that payments be made in a timely fashion! Hyperbole aside, this is a reasonably accurate reflection of how the system works.

Technically, as the job placement arm of the employment security system, the responsibility for assisting claimants in finding employment falls upon the employment service. Complicating this role is the fact ES is charged with serving all of the unemployed, of which claimants represent approximately 40 percent. Budget difficulties during the past decade have increased the problem of serving claimants and non-claimants alike. The result is that relatively few claimants receive effective job search assistance.

Adequate resources for skill training have never been available for mainstream UI claimants. Many of which are caught in the endless cycle of low paid employment and unemployment. These individuals do not normally qualify for existing public training programs by virtue of their past incomes, and do not have the resources to obtain such assistance on their own.

## THE NEVADA CLAIMANT PLACEMENT PROJECT

With the above considerations in mind, Nevada approached the San Francisco regional office of the Employment and Training Administration early in 1977 with a proposal to undertake a pilot effort aimed at providing concentrated ES and UI services to UI claimants. The goal was to reduce the duration of compensated unemployment. The proposal was favorably received and funding was provided. In addition, the regional office also agreed to excuse the pilot effort from all federal production goals.

The essence of the project was random selection of new claimants to four, two person teams, located in both ends of the State. Once selected, the claimants stayed with the teams for the duration of their benefit year. Staffing of each team consisted of an employment service and an unemployment insurance specialist.

The charge to the four teams was: Remove participating claimants from the UI system by either (1) disqualifying those who do not meet the eligibility provisions of the law, or (2) finding suitable employment for those who did. Computer support allowed the teams to operate as "local offices" within a local office. Each team controlled its workload and was free to pursue each case as they deemed necessary. All normal resources within a local office were at their disposal (e.g., listing of available job openings, etc.). Lastly, assurances were given that individual team results would be held confidential.

The pilot operated for 12 months and served 3,545 claimants. Compared to a control group of randomly selected claimants who received normal ES and UI services, the results were significant. On average, unemployment insurance duration was reduced by over three weeks. As to why, the data revealed that project participants were roughly three times as likely to be disqualified as regular claimants, and three times more likely to be placed by ES. However, actual placements by ES were relatively low. Most claimants, with the assistance and encouragement of the teams, found their own jobs. Anecdotal evidence suggested that the major benefit of the project was the individualized attention that the teams were able to provide their clients. The rate of return to the UI system from the reduction in duration was estimated at $4.22 for every dollar spent.

## THE NEVADA CLAIMANT EMPLOYMENT PROJECT

The Claimant Placement Project received considerable national attention, both during its operation and from the publication of the findings in 1978. In spite of its favorable reception, however, Nevada was unsuccessful in obtaining additional federal funding to experiment with more streamlined versions. This led the Department, in 1987, to develop a plan with the aim of eventually obtaining support from the Nevada Legislature. The plan was to operate a pilot project, patterned after the early effort, using $400,000 of UI penalty and interest monies (i.e., penalties assessed on employers with delinquent accounts). If successful, the Department intended to present the results to the 1989 session of the Legislature. The objective was to obtain permanent funding from a special employer tax.

Called the Claimant Employment Project or CEP, the project differed from the prior effort mainly in that it contained a training module. One-half of the allocation was designated for this purpose, with training to be provided by the Job Training Partnership Act (JTPA) service deliverers. Supporting the inclusion of a training component was a prior study of the Nevada JTPA Title II program which revealed training had a positive net impact on the annual incomes of participants (e.g., approximately $1,400 for males and $700 for females). The remaining funding was for two CEP teams, each consisting of an ES and a UI specialist.

The project began operation in July of 1988 and ran for one year. Initially, new claimants were randomly referred to the two CEP teams for assessment. Those with firm employment recall dates or union affiliation were not required to participate. With these exceptions, participation was mandatory as a condition for drawing UI. Once assessed into the program, an extensive employment development plan was put together for each participant with the aim of facilitating reemployment. Possible approaches consisted of various job search activities, skill training, or some combination of the two. With the exception of skill training, participants were required to follow the plan as a condition of remaining eligible for UI. Participation in skill training was voluntary.

The two teams served 1,424 claimants of which over 90 percent only received intensive ES and UI services. From an ES perspective, these services consisted of activities such as developing job search plans, attending job search workshops, job development, job referral and job placement. Like the earlier project, the majority of those finding employment did so on their own with the assistance of the teams (i.e., they were not directly placed by ES). The remaining 130 individuals participated in some form of public training (i.e., JTPA Title II and III). Of the 130, the CEP program funded 63 at an average cost of $3,000 per participant.

The evaluation of the pilot project, based on an experimental design, revealed that the non-training aspect reduced average UI duration by 2.1 weeks. Unlike the earlier effort, the data indicated that the decline was from job search activities, and not from increased UI disqualifications. This probably was the result of a decision to remove the nonmonetary adjudication function from the CEP teams (i.e., claims examiners were used in place of adjudicators). The rate of return to the UI system from the reduction in duration was conservatively estimated at $2.39 for every dollar spent.

Timing and the evaluation methodology did not allow for specific benefit/cost estimates of the impact of training on UI duration. However, it was estimated that for training costs to break even from a UI standpoint, future average annual UI durations of trainees would have to be reduced by about two weeks. Such reductions do not appear unreasonable given the positive impact JTPA training has on annual income as previously cited.

## THE CURRENT CEP PROGRAM

The 1989 session of the Nevada Legislature convened mid-way through the pilot project. Based on preliminary findings similar to those presented above, legislation was enacted expanding and extending the CEP program for two additional years. To fund the effort, a special assessment of five one-hundredths of one percent was levied on payrolls taxable under the Nevada Unemployment Insurance Act. This assessment allowed for a $5 million program over the July 1, 1989 to June 30, 1991 period. Nearly one-half of the budget is allocated for training, with the remainder mainly for local office CEP staff. The program is statewide.

The Nevada Employment Security Department recently introduced legislation to the current session of the Nevada Legislature to make CEP a permanent part of our effort to provide job search and reemployment assistance to claimants. We are hopeful that the Legislature will see fit to make CEP a permanent part of the Nevada Unemployment Insurance program.

## CONCLUSION

Mr. Chairman, we believe our experience supports the idea that the employment security system, given adequate resources and the flexibility to provide individualized attention, can provide UI claimants effective job search and reemployment assistance in a cost effective manner. This completes my formal statement.

Acting Chairman DOWNEY. Thank you, Mr. Hanna.

Ms. Countryman, do you have the ability now at the employment services in the State of Washington to do the following things that you mentioned should be available, income maintenance, intensive job search, training, reemployment bonuses, seed capital for entrepreneurs, and income maintenance with requirements for job search?

Ms. COUNTRYMAN. We have the ability to do the straight income maintenance as far as the unemployment insurance program carries those and that in our State is a maximum of 30 weeks, about 7 months.

Beyond that, we only have the recessionary power if an extended benefits program kicks in. We have the legal authority to do types of job search assistance and constraint, but we do not have the money to do them.

Acting Chairman DOWNEY. You have the legal authority to do all of the things that you mentioned to us——

Ms. COUNTRYMAN. No, we do not have the authority to use trust funds for reemployment bonuses or for seed capital. Those projects were both run with special grants from the Department of Labor to be able to test those options. So we did not use unemployment insurance funds, but we mimicked the effects of using them.

Acting Chairman DOWNEY. What about you, Mr. Hanna, do you have the ability to do some or all of these things? Have you experimented with reemployment bonuses?

Mr. HANNA. We have not been involved with reemployment bonuses. Basically, we now have the capacity to train claimants, which is something we have never had the ability to do before, and to provide more intensive ES and UI services.

Acting Chairman DOWNEY. So what we are really talking about is looking at this universe of people who are unemployed and providing you with the money and the flexibility to do a lot of different things for people because, as you pointed out, Ms. Countryman, the people who come in the door have a lot of different needs.

You would not disagree with anything that Ms. Countryman said, would you, Mr. Hanna?

Mr. HANNA. No, I would not.

Acting Chairman DOWNEY. Mr. Coates, thank you for coming. As you heard me explain to Ms. Unsoeld, I think that the Federal Government owes you more than just our willing ear, but possibly part of our open wallets. But as the President said in his inaugural, we have more will than wallet. I happen to think it is reversed. I happen to think we have more wallet than will. That is really the issue.

I would like to ask you if you can just state briefly how anything that we are going to do here could possibly help some of the rural communities in the State of Washington.

It seems to me that giving you long periods of unemployment benefits, which would avoid the tragic situation of that couple who did not eat for 3 days so that their children could eat, is not a long-term answer for you. Is it?

Mr. COATES. No, sir. Right now it is an immediate. If there was some sort of support under—especially for the amount of miles

that a person has to travel if he wants to be retrained, also, child care and even basic health.

We are currently 21 providers short in the community even for health care. Someone who would even qualify for DSHS has to travel 45 to 50 miles to even have that taken care of.

Acting Chairman DOWNEY. I would be happy to explore what else we can do with Ms. Unsoeld and Dr. McDermott and Mr. Chandler, but we are looking at a series of things that need to be done in the State of Washington, some of which fall within the purview of our committee and some that do not.

Do people who have been out of work for a period of time in your community qualify for public assistance payments, food stamps, and Medicaid?

Mr. COATES. Generally, no. That is the problem.

Acting Chairman DOWNEY. Why? Are their assets too high?

Mr. COATES. Not only that, but even ones who are going into bankruptcy who currently have a log truck that they are trying to dump on the market, that is counted as an asset and they are still not qualified.

We also have the problem of if you even wanted to sell and get out, who are you going to sell it to? You are sitting there with anywhere from a $30,000 to $90,000 home and you are all dressed up and nowhere to go.

Acting Chairman DOWNEY. Dr. McDermott.

Mr. MCDERMOTT. I want to thank all of you, but particularly Mr. Coates.

What happens to the worker who has gotten into a training program and then runs out of unemployment benefits? What are the experiences you are having with your members that come through Grays Harbor Community College or whatever local institution or training program? What is actually happening?

Mr. COATES. What actually happens is that without the unemployment there is no money back up there to even continue on. That is why I have been trying to get some resources in to at least keep them fed and keep some sort of food in their stomachs to keep them going through this.

The assets have been eaten up. The college funds——

Mr. MCDERMOTT. Are there tuition waivers, anything available for them to continue paying a tuition in a community college program to learn something about computers or some training?

Mr. COATES. The ones that are currently in now are usually in either under the EDWAA-sponsored title IIIs or they are under some sort of a Pell grant, but even that—even under the Pell grant is difficult because if you were able to go in at this point of it and you made some money in the early part of 1990, the next term you would not be covered under a Pell grant.

So it is a whole scenario of things that would make them fail under the current system.

Mr. MCDERMOTT. Explain the problem with the Pell grant. Why if you have made money in the early part of 1990 can you not get the Pell grant?

Mr. COATES. I am not an expert on that, but it is the way the process has been working.

Mr. MCDERMOTT. All you know is the end product, people lose their grant.

Mr. COATES. It seems to be one thing after another. Even if you could get on a Pell grant, somewhere on down the line if you did make money early into it, you would not be able to be covered under the next part of it and there would be no money available.

Currently, under the Pell grant they are only receiving right around $500 a quarter.

Mr. MCDERMOTT. Your numbers in Grays Harbor County of people that have exhausted benefits, how many people—how many workers do you have now who have exhausted benefits in the county? Do you know?

Mr. COATES. Sir, I could not begin to tell you because those numbers have not been counted. What I can tell you is that I have personally been involved in the closing of 31 mills and those mills range in the size from 5 to 200 with an average of 45.

Mr. MCDERMOTT. All within the county?

Mr. COATES. Within Grays Harbor County.

Mr. MCDERMOTT. Within Grays Harbor County?

Mr. COATES. Yes, sir.

Mr. MCDERMOTT. Do you know the number, Ms. Countryman?

Ms. COUNTRYMAN. I do not, but I will get it and send it to you, sir.

Mr. MCDERMOTT. I would appreciate that.

I think there has got to be some way that we can adjust the way the money is used so that it does not work against itself. We ought to be able to construct the rules and regulations so that it ought to help workers rather than make it impossible to make the programs all integrate. So will work on that.

Mr. COATES. I thank you.

Mr. MCDERMOTT. Thank you very much, Mr. Chairman.

Acting Chairman DOWNEY. Thank you, Dr. McDermott.

Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman.

I think my colleague makes an important point. I know when we met last summer in the Governor's office and in subsequent meetings, flexibility was seen as a key. I heard the same thing again today, Ms. Countryman, and I think it is worth your reiterating a bit that flexibility is what you are asking for. Well, of course there will be some strings, but flexibility for you to make some decisions.

Ms. COUNTRYMAN. Flexibility and capacity.

Mr. CHANDLER. The only thing I can tell you, Mr. Coates, is that the legislation we are proposing will feature the extension of benefits during the period of training that is involved.

We are also looking at people being required to sell assets. But even at that, how many logging trucks are being sold? I would not think the market is very good for logging trucks.

Mr. COATES. All equipment, sir, is not bringing a price that would enable them to come out even during a bankruptcy. You are talking about some machinery that is running around $400,000. In the last auction that I witnessed, that equipment was selling for anywhere from $15,000 to $20,000. So it is less than a penny a pound.

Mr. CHANDLER. With the mills you cited that you personally were involved in seeing them close, how many of them do you think will reopen?

Mr. COATES. None.

Mr. CHANDLER. In other words, those are mills that have closed because of—well, I am sure they are not all because of supply, but primarily because of the lack of supply of timber?

Mr. COATES. That and the Canadian market, sir.

Mr. CHANDLER. Or they just simply could not survive beyond a period of closure and have gone bankrupt or something.

Mr. COATES. What we have experienced within the last 8 months was employers trying the spread the wealth around a little bit within their communities. So where you would have one person making a family wage, you now have five people doing the same job to bring home $20 or $25.

It is not just a supply issue, but it is also the influx of Canadian softwood, dimensional lumber into the United States.

Mr. CHANDLER. Then for you, Ms. Countryman, what this creates is a significant number of people with no hope of going back for employment where they had been before?

Ms. COUNTRYMAN. That is correct.

Mr. CHANDLER. I think, Mr. Chairman, that is the important point of this. You have a range of difficulties that people face. Very often some can transfer skills readily and they do and they have the assets to do so.

However, there are some incredibly vulnerable people, like those with whom Mr. Coates is most associated, and we need to aim special attention at them. And I can assure you that the bill we are working on is intended to do just that.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. Moody.

Mr. MOODY. No questions.

Acting Chairman DOWNEY. Mr. Shaw.

Mr. SHAW. Mr. Chairman, I want to explore a couple of avenues.

Mr. Coates, you brought something to my attention that I did not know was in the law when you stated that loggers who have trucks do not qualify for payments.

I knew that the house and certain furnishings were exempt, but I also thought tools of the trade were exempt. I will be working on some legislation as part of a bill, hopefully with the chairman, and I think that is an area that we should explore because someone should not have to sell tools of his trade in order to qualify for payments.

It is crazy because on the one hand we are trying to put people back to work and on the other hand we are putting them in a position where they have got to get rid of their tools. So even if they find work, how are they going to go back to work. I think this problem is not going to apply so much in your situation because you also testified that you did not think that these mills would ever reopen, in part because of competition from Canadian timber.

Are the Canadians giving the timber to the logger off of public lands without cost?

Mr. COATES. My understanding, sir, that it is subsidized in Canada.

Mr. SHAW. That has been a subject of debate for a number of years as to their competing with our timber industry on a subsidized basis. I think that is something that we should explore with Ms. Hills to see if there is some adjustment or something that can be corrected so American logging companies can compete.

We do not even give capital gains anymore to timber growers, which is something that the chairman might want to take a look at. [Laughter.]

What is being done in your area—you disturb me when you say that logging is never coming back. I guess that is a political estimate as much as anything else, but you are in a better position to judge that than I am.

What is the percentage of unemployment caused by the mills being closed down?

Mr. COATES. Currently, I believe the employment security's estimate right now is it is right around 11 percent, but I think you have to understand the enormous amount of people who have used their unemployment up to date far outweighs—and those numbers are not tracked within those percentages.

We have a larger—there was 7,000 claims processed in the month of November.

Mr. SHAW. That is in your community of 65,000?

Mr. COATES. 64,000, sir.

Mr. SHAW. What is being done to attract industry to that area?

Mr. COATES. Currently, the EDCs have been working on it and also, I believe that the Governor has—within a proposal before the legislators now.

I have been working with two different businesses for over 8 months to try and get a diversification of businesses coming in. The problem is, as with anything, money for up starts.

Mr. SHAW. What do you think would be the solution for the creation of jobs? There is no sense training people if there are not jobs out there to put them in.

Mr. COATES. My personal opinion?

Mr. SHAW. Yes, sir.

Mr. COATES. My personal opinion was that when this has come down that it would have been done over a period of years because when you take fiber out of an economy—and the United States depends on a lot of fiber—you are going to have to come up with some sort of substitutes.

So while you are slowly phasing it out that at least while substitutes have been invented that jobs would be created also. That is my personal opinion.

Mr. SHAW. Was all of this created because of the spotted owl? What else would have played into that?

Mr. COATES. Pretty much so. We are totally shut down on the Quinalt end of it where we had around 95 million being brought off of there. We are at dead zero right now.

Mr. SHAW. And all that is because of the spotted owl problem and no other problems with regard to——

Mr. COATES. The industry has always had ups and downs.

Mr. SHAW. The timber industry right now is rotten all over the country. I know that, but it kind of goes with the cycle of home building.

Mr. COATES. But they have always come back. In the 1980s when the mills were revamped, it took less people, but they were putting out—the high speed mills were putting out the same amount of product. They recouped to that point.

Now you have a whole different scenario where you have taken the supply totally out of the picture at least on that end.

Mr. SHAW. Well, years ago I worked as a forester for a lumber company in Alabama and I know that your people in that timber industry are among the hardest working in the world. It is tough work and it should be an area that would be bright for investment for the creation of jobs by the private sector because there has got to be an excellent work ethic in your community.

I certainly wish you well and appreciate your bringing your problems before this committee—all three of you—and for your very fine testimony.

Mr. COATES. Thank you, sir.

Acting Chairman DOWNEY. Mr. Moody.

Mr. MOODY. Mr. Hanna, you said in your presentation that the interventions that you described were cost effective. Could you just go over that and what those interventions were?

Mr. HANNA. Yes. On the last project, for every dollar that we spent on providing the services, we estimated that trust fund expenditures or UI benefits were reduced by over $4.

Mr. MOODY. For every $1 spent?

Mr. HANNA. For every $1 spent.

Mr. MOODY. On training?

Mr. HANNA. No.

Mr. MOODY. On job search?

Mr. HANNA. On job search assistance.

Mr. MOODY. Could you isolate whether or not those people would have found jobs anyway? It is tough to control that because some people would find jobs on their own. How do you separate out what you did for people versus what they might have done for themselves?

Mr. HANNA. What we did on both pilot projects was to use an experimental design. That is, claimants were randomly referred to the teams or to a control group. So at the end of the experiment you could say that the test group drew fewer UI checks as a result of the process.

Mr. MOODY. You used statistical inference techniques?

Mr. HANNA. Yes, we did.

Mr. MOODY. Would you say that we could extend that to the entire Nation? Would that make sense? Are there any caveats in trying to do that? Is it particular to Nevada's experience, or would it be applicable——

Mr. HANNA. No, I do not think it is particular to Nevada. We have done it twice and we did it back in 1977 and we did it in 1989 and we did it in different economic environment. In the earlier project we were actually having extended benefit period in operation while we did that and the second phase of it, the 1989 Nevada economy was booming. So I would think that, yes, it has applicability to the entire Nation.

Mr. MOODY. And it is a job search focus, not a retraining, strictly job search, assisting them with job search?

Mr. HANNA. Yes. We did experiment with retraining too. We are doing that, but the numbers I quoted on the reduction and duration would apply only to the job search part of it.

Mr. MOODY. Thank you very much.

Acting Chairman DOWNEY. Thank you, Mr. Moody.

I want to thank the members of the panel for their testimony. It has been very helpful. Thank you, Mr. Coates.

The committee will hear next from the senior Senator from the State of Maryland, the Honorable Paul Sarbanes.

## STATEMENT OF HON. PAUL S. SARBANES, A U.S. SENATOR FROM THE STATE OF MARYLAND; CHAIRMAN, JOINT ECONOMIC COMMITTEE

Senator SARBANES. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before you today on the problems of the unemployment insurance system. As the Nation's economy sinks into recession, these hearings and the legislation that you make undertake are most timely and I particularly want to commend the chairman for the set of hearings which he has been holding on what I think is a very, very important issue.

The Joint Economic Committee, which I am privileged to chair in this Congress, has been looking at the recession and the policies to respond to it. Unemployment compensation, of course, is designed to take care of human needs, so it has a humanitarian purpose; to act as an economic stabilizer, so it has a very important macroeconomic purpose; and to help workers find suitable jobs. It is our analysis that the unemployment insurance system today is not performing its role fully.

As a quick targeted program of income replacement for jobless workers, the unemployment insurance system is ideally designed to serve as a fiscal stabilizer. In other words, funds are allocated without lags of bureaucratic or political decisionmaking that often characterizes other countercyclical spending and the funds automatically go to the areas of greatest distress by definition.

The unemployment insurance system is not performing its stabilization role as well during this recession as it should. As a result of three key changes, unemployment insurance is replacing workers' lost income only half to two-thirds as well as it did in past recessions. Until a decade ago, the number of unemployment insurance recipients closely tracked the number of unemployed job losers. Today, recipients trail job losers by 20 percent. In addition, the system is triggering far fewer longer term benefits for States than in past recessions; and finally, the purchasing power of unemployment insurance benefits have been diminished because they are now fully subject to taxation.

Unemployment insurance performs a vital economic function to families and the economy in good times and bad. In recent years of economic expansion, 7 million workers received unemployment insurance benefits that averaged $2,000. During the worst year of the last recession, 11.4 million workers, more than a tenth of the work force, drew unemployment benefits. The current recession has raised claims by almost 50 percent over a year ago.

I am going to abridge this statement. I include it all for the record.

Acting Chairman DOWNEY. Without objection, the whole statement will be appended to the record.

Senator SARBANES. Thank you very much.

A 1990 study by the CBO concluded that 46 percent of all families receiving unemployment insurance benefits for more than 4 months had total income from noninsurance sources that put them below the poverty line. As a result of the unemployment insurance, only 19 percent were below the poverty line, just to give you some sense of the impact that it had.

There is one final point I want to make about unemployment insurance in addition to the stabilizing impact, and that is its role in raising the productivity of the economy. Unemployment insurance gives workers a chance to survey the job market. That means they can take a little extra time to find a job suited to their skills and interest. Better matching of workers and jobs results in a more productive economy.

In addition to improved matching, the system provides assurance of some income support to workers considering more productive jobs that carry greater risks of job loss. Without such assurance, there are certain sectors that would have great difficulty, it is estimated, in attracting productive workers.

Now let me just turn quickly to three major issues for the Congress to address. The first is the counterproductive cap on the funding of the administrative costs of the unemployment insurance program. The 1990 budget agreement excluded spending on unemployment insurance benefits from the spending caps. The agreement sought to exclude out deterioration in the economy since that was not within the control of trying to frame a budget.

So if the economy went soft, costs such as unemployment insurance would automatically rise; you would not include them within the spending limits and force reductions in other spending, which in itself would be counterproductive since you would be contributing to the downturn. So that made sense, and it was something that was agreed on by the Congress and the administration.

The difficulty was that they did not exclude the spending of administrative costs. Now what has happened since the recession began last fall, is a tremendous increase in the number of claims and, therefore, a tremendous increase in the burden on unemployment insurance offices.

The administration asked for $100 million in the supplemental for these costs, but within the caps. They did not declare it an emergency. The State administrators estimate that the figure ought to be $200 million, and it is the view of many of us that it clearly should be outside the cap. I think there is an emergency. We know how the unemployment rate is running. In many regions of the country now people are lining up at daybreak in order to file their claims and are then there until nightfall.

In Indiana, 17 local offices were closed, 100 staff were laid off as a result of the administrative shortfall and yet, the number of claims doubled from 29,000 to 57,000. People have been turned away, told to come back another day. The delay then in receiving the benefit check means that you have a great deal not only of per-

sonal suffering, but, of course, you are not contributing to countering the downturn because these people are denied purchasing power. Employers are concerned about it. After all, they pay these unemployment taxes and are participants in the program. They want it to work. Some employers have provisions that if workers are laid off, they get a certain amount of their weekly benefit provided by the employer and by the unemployment insurance system. So it is more than just the benefit. If the unemployment insurance has not kicked in, the employer in those instances is responsible for paying that amount. Of course, I understand that they have been bringing this point home to the administration.

Senators Mitchell and Sasser and I have sent a letter to the President both arguing for a larger figure on the administrative costs and arguing very strongly that it should be declared an emergency, therefore, taken outside of the spending caps.

This problem of administrative costs, even if it is resolved for this year, is one to which I think thought needs to be given.

Second, the Federal Government moved in the last decade from imposing no tax on unemployment insurance income to taxing it entirely like ordinary income. While benefits have increased over the last couple of decades roughly in line with inflation, they were not increased to take care of the taxable nature of benefits. As a consequence, this new taxation without a compensating benefit increases reduced both the humanitarian and countercyclical effects of the program.

Finally, let me turn to what I regard as an outmoded trigger for recession benefits. For workers that experience job loss, the system provides insurance in the form of income support for a reasonable period to find a new job. In normal times, virtually all States set a maximum income support period of 26 weeks, half a year. However, during a recession, regional or national, the chances of finding a job within 26 weeks are greatly reduced.

To provide in effect a reasonable time under downturn circumstances to find a job, the benefit period should be extended. Since 1970, the U.S law has recognized this and provided for extended benefits up to an additional 13 weeks during particular adverse conditions. In the deep recessions of 1975 and 1982, we enacted in addition, temporary provisions extending the benefits even longer.

The difficulty is that the formulas used for the extended benefit payments have become outdated due to changes in the system and the labor market. We had a witness who testified in the beginning of January in front of our committee about the current extended benefits trigger. He likened it to a malfunctioning thermostat on an air conditioner and said, and I quote him:

> The broken thermostat will certainly save you a lot of money over the course of a hot summer, but it will not keep the house very comfortable. The current extended benefit trigger is like the broken thermostat. It takes a lot of unemployment before this particular thermostat registers a recession.

Another witness estimated that unemployment in a number of States would have to reach a 15-percent figure before the extended benefits program was triggered.

I think there is a very clear need to examine the extended benefit trigger. It is a complicated matter, but I think we need a more

responsive or sensitive indicator in terms of determining when the extended benefit program would be triggered for another 13 weeks.

In conclusion, let me say that, Mr. Chairman, I think that we have had a period now of slow growth, but at least no downturns. The unemployment insurance system has been neglected as a consequence. We last looked to it in any serious way in the 1982 recession, which of course was the deepest we had experienced since the 1930s. I think it really is not positioned to respond well to this recession or others that may come. The budget rules have caused the shortfall in administrative funds, which have forced delays in processing claims; the subjecting of benefits to income taxes is not being compensated by an increase in the level; and the long-term benefits have been put out of reach in most States because of the way the trigger works.

I very much commend your efforts. I know this subcommittee has jurisdiction over any legislative effort to revise the system to make it more responsive. Congress actually in almost every recession has addressed this issue and considered it in legislative terms particularly if the recession has been of any extended duration. Now there are predictions about this recession being short and shallow, but that is very hard to predict. I am reminded of John Kenneth Galbraith's testimony about predicting the recession. There are two kinds of economists; those who do not know and those who do not know they do not know.

One thing is clear, we have had 1 million additional jobless workers in the last 8 months and even the administration's prediction would probably give us another million by the end of the year.

We have a 6.2 percent unemployment rate. The administration's economic report and their budget submission assumes an unemployment rate for this year, for this calendar year of 6.7 percent. They also predict that we will be moving out of the recession by summer and on an upward trend.

We questioned Boskin very closely about this. If all of those assumptions that the economy is going to be improving from midsummer on are accepted—the 6.2 is not an assumption, that is a fact—if you accept their prediction of a 6.7 percent unemployment rate for the year, then obviously unemployment is going to go up very significantly over the next few months. Boskin conceded that that was in effect their prediction because it is going to have to go well above 6.7 percent to give you a yearly average of 6.7 percent if you are predicting that in the latter part of the year you are going to be on an upward trend. He did not want to get into the 7 percent figures in the testimony. He resisted that, but he conceded that for all of this to square they are going to have a very sharp rise in unemployment over the next few months above the 6.7 percent figure if you predict a 6.7 percent figure for the year.

So this problem is not going to go away. It is with us and it is with us right now, and it will be with us obviously even by the administration's prediction for a number of months and if the short and shallow prediction does not work out, for much longer than that.

I thank the committee very much.

[The prepared statement follows:]

Statement of
Senator Paul Sarbanes
Chairman of the Joint Economic Committee
before the
Subcommittee on Human Resources
Committee on Ways and Means
on
February 28, 1991

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today on the problems of the Unemployment Insurance system. As the Nation's economy sinks into recession, these hearings and the legislation that you may be contemplating are most timely.

The Joint Economic Committee, which I chair, has been examining this recession and policies to respond to it. Unemployment compensation is designed to take care of human needs, to act as an economic stabilizer and to help workers find suitable jobs. The JEC's analysis indicates, however, that the UI system today no longer performs its role fully.

**FEEBLE RESPONSE OF UI TO THIS RECESSION**

As a quick targeted program of income replacement for jobless workers, the UI system is ideally suited to serve as a fiscal stabilizer. Funds are spent immediately without the lags of bureaucratic or political decision-making typical of other countercyclical spending. Moreover, the funds are automatically spent in the locations of greatest distress.

The UI system is not performing its stabilization role as well during this recession as it should. As a result of three key changes, unemployment insurance is replacing workers' lost income only half to two-thirds as well as it did in past recessions. Until a decade ago, the number of UI recipients closely tracked the number of unemployed job losers. Today recipients trail job losers by twenty percent. In addition, the system is triggering far fewer longer term benefits for states than in past recessions. Finally, UI benefits have become fully subject to income taxation.

**PURPOSES OF UNEMPLOYMENT INSURANCE**

Unemployment insurance provides a vital economic function to families and the economy in good times and bad. In the recent years of economic expansion, 7 million workers received UI benefits that averaged $2,000. During the worst year of the last recession, 11.4 million workers -- more than a tenth of the workforce -- received unemployment benefits. The current recession has raised claims by almost fifty percent over last year so that the Administration projects that 10.7 million workers will receive UI benefits in FY91.

As "social insurance," the unemployment benefits serve humanitarian, economic stabilization, and productivity-enhancing purposes. In humanitarian terms, UI can provide prompt financial assistance to workers at a time of severe economic distress. According to a 1990 study by the Congressional Budget Office, 46 percent of all families receiving UI benefits for more than four months had total income from non-UI sources that put them below the poverty line. As a result of unemployment insurance, only 19 percent of families with long-term unemployment remained below the poverty line. Among those remaining in poverty, their UI income pulled them up much closer to the poverty line.

The unemployment insurance system can also provide an effective fiscal stabilizer during economic downturns. The members of the President's Council of Economic Advisers readily acknowledged this fact at the JEC's February 12 hearing.

Finally, although less well recognized than its humanitarian and stabilization roles, unemployment insurance plays an important role in raising the productivity of the economy. For millions of workers who work hard, pay their bills, but still live paycheck to paycheck, and suddenly find themselves jobless, unemployment benefits provide a reasonable time to survey the job market. The safety net of UI means that they need not desperately take the first available job to keep creditors at bay. They may spend a little extra time to find a job suited to their skills and interests. Better matching of workers and jobs results in a more productive economy.

In addition to improved matching, the UI system provides assurance of some income support to workers considering more productive jobs that carry greater risks of job loss. Without such assurance, our highly productive manufacturing and mining sectors would have greater difficulty in attracting productive workers. By the same token, the program is designed to impose a higher tax for employers with higher layoff rates. Effective employment service and training programs complement these two productivity-enhancing aspects of UI benefits. As your other witnesses today demonstrate, we should strengthen both these programs.

**COUNTERPRODUCTIVE CAP ON UI ADMINISTRATIVE FUNDING**

The 1990 budget agreement contains an unfortunate anomaly that hinders the effectiveness of the UI program. While the agreement excludes spending on UI benefits from the spending caps, spending on administration of the UI program is included in the domestic discretionary spending cap. The recession which began last fall has so increased UI claims and the burden on UI offices that administrators of the state UI programs estimate additional costs of $200 million. Many unemployed workers living paycheck to paycheck are receiving their first UI benefit check 4 to 6 weeks after application. They are supposed to receive checks within two weeks.

The shift from a deficit cap to spending caps was intended to permit cyclically sensitive programs to respond to the business cycle. Debate over deficit-cutting was to focus on structural aspects of the budget. Yet no provision was made to provide UI administration funding for cyclical increases in the workload. At least in the case of recessions, that defect in the current budget mechanism should be corrected.

As you may know, at our February 12 hearing with Chairman Boskin and the other two members of the Council of Economic Advisers, I along with Congressman Hamilton pressed for consideration of an additional $200 million in administrative funding as an "emergency" under the budget agreement. Subsequently, Majority Leader Mitchell, Budget Committee Chairman Sasser and I sent a letter urging President Bush to recognize the emergency nature of necessary appropriations for UI administration during this recession. I ask that a copy of this letter be included in the record.

However, this emergency funding would only affect FY91. It is also necessary to enact a solution for future fiscal years that permits more flexible spending for UI administration in recessions.

**NEW TAXES**

In the last decade, the federal government has moved from imposing no tax on UI income to taxing it entirely like ordinary income. For at least two decades, UI benefits have increased roughly in line with inflation; they have not been raised to offset the increase in taxes. The marginal federal income tax rate for most UI recipients is 15 percent. Most states impose income taxes that follow the federal example for taxable income. Thus, for most UI beneficiaries receiving the average $2,000 total payment, the imposition of taxes has reduced net income by $300 to $400. This new taxation without a compensating benefit increase has reduced both the humanitarian and countercyclical effects of the program.

**OUTMODED TRIGGER FOR RECESSION BENEFITS**

For workers threatened with job loss, the UI system provides "insurance" in the form of income support for a reasonable period to find a new job. In normal times, virtually all states set a maximum income-support period of 26 weeks. However, during a recession (regional or national), the chances of finding a job within 26 weeks are greatly reduced. To provide equivalent "insurance," the reasonable period of time to find a job should be extended. Since 1970, U.S. law has recognized this and provided for "Extended Benefits" (EB) up to an additional 13 weeks during particularly adverse

conditions. In addition, during the particularly deep recessions of 1975 and 1982, temporary provisions extended UI benefits even longer.

The formulas used to initiate EB payments have become increasingly outdated due to changes in the UI system and in the labor market. In testimony before the JEC on January 4, Gary Burtless likened the current EB trigger to a malfunctioning thermostat on an air conditioner:

> The broken thermostat will certainly save you a lot of money over the course of a hot summer, but it will not keep the house very comfortable. The [current EB trigger] is like the broken thermostat; it takes a lot of unemployment before this particular thermostat registers recession.

Another witness, Wayne Vroman, estimated that unemployment must reach 15 percent for the EB trigger to be reached in some states.

Since enactment of the EB program in 1970, the level of total unemployment required to trigger Extended Benefits has effectively been raised by forty percent. Half of that increase came as a result of the Gramm-Latta budget provisions of 1981. State responses to the budget pressures of the deep 1982 recession largely account for the other half.

Until the late 1970s, the number of UI recipients closely tracked the number of "job losers," i.e. unemployed who had involuntarily lost their last job. The deep recession of the early 1980's left many states with UI trust funds in substantial debt to the federal government. To repay these debts, many states not only raised UI taxes but also tightened eligibility requirements. In recent years, the number of UI recipients has fallen to four fifths of the number of "job losers." Since EB is triggered by a state's insured unemployment rate ("IUR": the number of UI recipients relative to the number of employed and covered by UI), this has the effect of raising the EB trigger by one fourth. However, the effects are very uneven. While some states would require total unemployment rates as high as fifteen percent to trigger EB, a few states with much lower unemployment rates will be triggering EB in coming months.

To maintain an appropriate level of "insurance," the trigger for longer term UI benefits in a recession should be recalibrated. Given the wide divergence among states in eligibility requirements, and therefore their IUR rates, the recalibrated trigger should not hinge on the IUR. Another measure, such as the total unemployment rate, would better reflect the chances of finding a job within 26 weeks and not the stringency of a state's eligibility criteria.

## CONCLUSION

Changes in the UI system over the last decade have left the system unprepared to respond well to this recession. The budget rules have caused a shortfall in administrative funds which have forced delays in processing claims. Over the last dozen years, all UI benefits have become subject to income taxes without any increase in benefits. Changes in UI law and administration over the last decade have put longer term benefits out of reach for most states in recessions short of near-depressions. Each of these shifts has undermined the humanitarian, countercyclical, and productivity purposes of the system.

This Subcommittee has jurisdiction to initiate the legislative effort to revise the UI system to make it more responsive. There is surely ample precedent for you to take action. Since the recession of 1958, Congress has enacted legislation to extend the duration of UI benefits during every recession that was as long as the administration forecasts this one to be. With a million additional jobless workers in the last eight months and another million anticipated by the end of the year, I urge you to strengthen the safety net particularly in case the recession proves worse than projected, and to assure that we build better insurance for the future.

# United States Senate

February 25, 1991

The President
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President,

We write you today to request that you join with us in recognizing the amount of the shortfall in funding for the administrative expenses of the Unemployment Insurance Trust Fund and the emergency nature of the need for UI administrative expense funding. Moreover, we urge you to make such an emergency designation under section 251(b)(2)(D)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985.

In your budget submission to Congress on February 4, you requested a supplemental appropriation of $100 million for Unemployment Insurance administrative expenses. Your original budget request for UI administrative funds for FY 1991 was based on a projected unemployment rate of 5.3 percent. After the midsession review in September of 1990 that projected an unemployment rate of 5.6 percent, you asked for and received $90.7 million in additional funds for FY 1991. By the beginning of the fiscal year, unemployment estimates had increased to 6.1 percent resulting in a shortfall of approximately $84 million in administrative cost funding. Consequently, the Department of Labor implemented a policy of financing about 75 percent of the administrative costs to stretch out the amount of money allocated in the 1991 Appropriations bill.

Since June more than one million Americans have lost their jobs, and the unemployment rate has increased to 6.2 percent. The Office of Management and Budget's review assumes that nearly another one million Americans will lose their jobs as the year progresses. The Department of Labor now estimates the UI administrative fund shortage is in the range of $200 million. A $100 million supplemental would be only sufficient to continue reimbursing states at 75 percent of their costs for administrative activities. Reimbursing states at only 75 percent of their costs is a violation of the Federal-state agreement that the Federal Government pay all state administrative expenses.

Before last year's supplemental appropriation passed most states had already scaled back their services to prepare for the possibility that a supplemental would not pass. As soon as the supplemental did pass, states used that money to deal with the backlog resulting from their previous slow-down in services. Additionally, the Interstate Conference of Employment Security Agencies, the National Conference of State Legislatures, and the National Governors' Association estimate that states used as much as $140 million of their own money last year to make up for the shortfall in Federal funding for administrative expenses.

We would like to request that you increase your supplemental appropriation request for UI administrative funds to $200 million to fulfill the Federal Government's commitment to states. Furthermore, we request that you designate your request as an "emergency requirement" under the provisions of the recently passed Budget Enforcement Act to prevent the amount from being counted against the discretionary caps established for the Appropriations Committee in last year's budget summit.

Plainly, an emergency exists. Both the Congressional Budget Office and your own Office of Management and Budget have certified that the Nation is in a recession. Unemployment has risen from 5.6 percent in September of last year to the current 6.2 percent. Waits of 4 to 6 weeks for benefit checks are not uncommon in virtually all regions of the United States. In Indiana 17 local offices were closed and 100 staff were laid off as a result of last year's administrative fund shortfall while the number of claims increased from 29,670 per week in October to 57,330 in December of last year. In many states, increased

BEST AVAILABLE COPY

workload and decreased staff result in waiting lines of up to 6 hours. On several occasions in the District of Columbia, staff have been forced to turn people away, asking them to return another day. In one local office in Maine, the backlog caused such delays that the fire marshall forced some of those waiting to leave. In New York last year, an estimated $4.5 million in tax revenues was lost due to redeployment of tax staff to handle the backlog in UI claims activities. The list goes on and on.

Section 251(b)(2)(D)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) as amended by section 13101 of the Budget Enforcement Act of 1990 sets forth a procedure to address emergency funding requirements such as this. That section provides that if the President and the Congress each designate appropriations as emergency requirements, then the discretionary spending limits shall be adjusted to allow for legislation to respond to the emergency. We stand ready to move legislation that would so designate the administrative expenses of the Unemployment Insurance Trust Fund as emergency requirements. We invite you to write the Congress to join us in making this designation.

On January 21, 1991, the Senate voted 97 to 2 to continue to cooperate with the administration in maintaining the fiscal discipline of the Budget Enforcement Act of 1990. The Senate chose at that time not to suspend the constraints that Gramm-Rudman-Hollings imposes on the Nation's budget process. The Senate did so with the hope and belief that the Congress could work with the President to make that system work. A number of times during the debate on that vote, Senators cited the ability to fund emergency requirements that the law provides. Continued support for the budget process on which both the administration and the congressional leadership worked so hard rests on flexibility in its application. We have no desire to see a permissive, wide-spread use of the emergency exceptions to the strictures of the new budget law. But the branch that cannot bend will break.

Designating funding for the administrative expenses of the Unemployment Insurance Trust Fund as an exception to the spending caps of the new law is consistent with the intent of that law. The Budget Enforcement Act of 1990 reformulated the Gramm-Rudman-Hollings law to prohibit expansion of the structural deficit. The new law recognized that the economic cycle will expand and contract the deficit, and the new law unlinked the requirement for deficit reduction from the changes in the deficit caused by the economic cycle. The same logic applies to the administrative expenses of the Unemployment Insurance Trust Fund. They rise and fall with the economic cycle, and the spirit of the new law calls for the Government to fund them fully without cutting other needed Government services as an offset.

The new law focuses on controlling actions that the Congress and the President take to worsen the deficit. The new law generally holds Congress and the President harmless for the effects on the deficit of events outside their control. As much as leaders would like to be able to engineer the economy, factors beyond the control of the Government determine the amount of money needed to fund the administrative expenses of the Unemployment Insurance Trust Fund.

Americans overwhelmingly agree that support for our armed forces in the Persian Gulf rises to the level of an emergency requirement. By the same token, however, the recession dominating the home front has created an emergency right here in our own country. Please join with us, Mr. President, in combatting this emergency.

Most respectfully,

Jim Sasser
Chairman
Committee on the Budget

George J. Mitchell
Majority Leader
United States Senate

Paul S. Sarbanes
Chairman
Joint Economic Committee

Acting Chairman DOWNEY. Paul, let me say that we are honored and very pleased to receive your testimony.

I am not sure you are aware of this, but the subcommittee has passed some changes in the unemployment insurance system in the last 2 years.

According to the testimony you laid out, we have a series of problems. We have this absurd situation where the employment service is being starved at the very time it is needed the most and we have to fix that problem. We have an extended benefit program that requires a degree in economics just to figure out and clearly the insured unemployed rate has outlived its usefulness and needs to be replaced.

At the same time, we have to provide a greater incentive for the States to have more reserves than they currently have and that needs to be changed. Last, we have to deal with some of the restrictive requirements that the States now make on eligibility. They have competed with one another across the country to see who could provide the worst level of benefits, not the best level of benefits.

Having said all of that, and it is my hope that I and the other members of the subcommittee will be introducing legislation to deal with some of these problems within the next 2 weeks.

Let me ask you, one, can we expect some help from the Senate in dealing with this? Two, what sort of help can we expect? Three, give me some prognosis if we can get it out of here and out of there, what do think the Bush administration will do to it?

Senator SARBANES. First of all, let me say, Mr. Chairman, that we had two economists who testified at our January 4 hearing. We had had asked them to look at the bill that you were working on last year. I must say they responded with strongly positive comments about that legislation. They perceived it as responding to the problem.

Mr. MOODY. Were those the economists who knew nothing or those who——

Acting Chairman DOWNEY. Did not know that they did not know. [Laughter.]

Senator SARBANES. Actually, they were neither of those two. They were the few who knew something, I must say.

We have a task force working on the recession, which Senator Riegle is heading, and one of the items it is looking at is the unemployment insurance scheme.

There is considerable pressure on the administration on these administrative costs and at least addressing that problem, which makes absolutely no sense.

I think that there would probably be a responsive reception in the Senate, and I think what happens downtown would depend in part on how much of a recession we are still in. This may be the time to move because this is when the problem is before you and really needs to be addressed before it recedes from view. We have to anticipate it. If we do not anticipate, if we do not have a good unemployment insurance system, the recession may be worse than it otherwise would be because one of the purposes of unemployment insurance is to counter the cyclical downturn.

The other thing we also need to keep in mind is a somewhat broader issue. The State employment services are not only a safety net—it is a little bit like an acrobat in a circus. When the acrobats fall off there is a safety net to catch them. There is also a ladder there to help them get back up on the high wire. Unemployment services serve as a safety net with the unemployment insurance, but we ought not to neglect the other part of their task, which is to be this ladder that places people in their jobs.

We did a survey of how the Western European economies work a couple of years ago and one of the things that was very striking was the additional emphasis they placed on job placement and training in their employment services. We have that dimension, but it often gets neglected.

Acting Chairman DOWNEY. Well, we will look forward to working with you because I agree with everything that you have said here. I should add that I have already had lengthy discussions with Senator Moynihan, who is my counterpart in the Senate Finance Committee.

In order for this to be a countercyclical tool, it needs to be fixed and in order for it to be a more sensitive humanitarian tool, it definitely needs to be changed dramatically.

Senator SARBANES. Well, you are certainly ahead of the curve. You have moved forward with your hearings and you have earlier legislation. We are hopeful that it comes to fruition.

Acting Chairman DOWNEY. Thank you. We are ready to go. As a matter of fact, today we will take a look at the outlines of a bill. I will send you all of the material so that you can study it. I think you will find it in agreement with all of the major points that you have made.

Mr. Shaw.

Mr. SHAW. Senator, we listened to your testimony, which I appreciated, and most of which I and my colleagues on the Republican side happen to agree with. There is always, of course, the tough question—particularly when we are looking at the bill during a period of recession, and that is the skyrocketing costs. Mr. Downey's bill was costed out last year I think at around $1 billion per year. Now it costs significantly more and how are we going to pay for it?

That is one of the big problems when you are dealing with such a high accumulated debt. How do you spend yourself out of a recession?

Senator SARBANES. I think with respect to the unemployment insurance system you are really dealing with one of the firebreaks to a furthering downturn which will cost you even more on the deficit. Each 1 percent on the unemployment rate is $40 billion on the deficit. If this downturn gets started, part of the theory has traditionally been to try to get something to work in the opposite direction. One of the things we have used is unemployment insurance.

Now that certainly has a very important humanitarian aspect. You have people who had a job, they lose their job. I think there is a disconnect between policymakers in Washington and the ordinary person we are talking about. Most policymakers in Washington can go for a period of time without getting a paycheck and probably still meet their family expenses. For many, many workers

across the country, if they do not get that paycheck, they are in trouble, real trouble. They have payments to make on cars and houses, durable goods and so forth. So you get that check in there to prevent them from falling completely flat. It also sustains a certain amount of purchasing power. Instead of going from wherever it was to zero, it drops to about less than half. We use to replace more of the income than that.

I would argue to you that the costs are balanced out by the contribution it makes to a worsening of the recession which would then bring even higher costs. The administration obviously recognized that last year when they agreed to take the cost of the claims outside of the spending cap. Without it, you may then contribute to an even worse downturn, which in itself will raise the deficit much more because every 1 percent on the unemployment rate is another $40 billion on the deficit.

Mr. SHAW. Well, I am not sure that I agree with you as far as the mathematics. I agree with your conclusion, but the question is, when you start pumping literally billions of dollars in unemployment, you are not getting $3 and $4 back or $3 or $4 off of the deficit for every $1 that you pay into the unemployment benefits.

Senator SARBANES. I am not suggesting you net out ahead. I am only suggesting if it is not done you will end up worse. You have to make that calculation.

Mr. SHAW. It sounds like one of your economists.

Senator SARBANES. Well, the 1982 recession, if you go back and look at the deficit figures out of it, they were extraordinary.

Mr. SHAW. You brought up the question of administrative costs. One of the problems we have is that that goes through appropriations and is not considered an entitlement and there is a split authority.

Also, when you are looking at the whole scheme of things the General Accounting Office tells us that there are 45 programs with significant skill and training components that have a total funding of $16.7 billion. Those programs, by the way, are run by six different Cabinet agencies.

So it looks like there is also a lot of coordination that we should be looking at here in the Congress and try to centralize some of the spending in these programs.

Do you have any particular feeling with regard to that?

Senator SARBANES. There are a number of job training programs, some are under education, some are under labor, et cetera. That is always worth looking at. The Congress tried to pull some of that together in the Job Training and Partnership Act, you will recall, a few years back. I distinguished those from the administrative costs connected with just paying these claims, which I was addressing earlier. It is true there is jurisdiction in the Appropriations Committee. If you sought to make it automatic in the authorizing legislation, you would have an issue there between the authorizing and the appropriating committees which may ought to be faced.

In any event, even if it is left where it is, it seems clear to me that we ought to appropriate sufficient funds and under budget circumstances that enable it to move forthright. It does not make any sense to have this problem of the long lines and the waits of 6, 7, and 8 weeks before people get their first check, particularly when

the fund that the Federal level for the purposes of administrative costs has a very significant balance in it well above the minimum level that was established.

That fund has been paid in by employers, and in fact, we have been hearing from some employers who have been complaining about this because the system is not working the way it ought to work and they have made the unemployment insurance tax payments in.

Mr. SHAW. Thank you very much.

Mr. LEVIN [presiding]. I am sorry I missed the early part of your testimony, but as always, it is right on the mark. I was in Michigan last weekend at an unemployment comp office, where I talked to employers as well. They surely are complaining. The employers paid the tax and the service is not being provided and people are waiting 5 or 6 weeks for their checks.

I saw some materials—they have 4 months of unfilled materials in Michigan. So when a claimant comes in and there is something perhaps relevant in that batch of materials, they have to look at it manually.

I was delayed because I went over to the Appropriations Subcommittee. They just marked up a $200 million supplemental for this.

Senator SARBANES. Good, good.

Mr. LEVIN. So all of your efforts and those of others of us interested may be paying off.

We hope you will be ready to throw the ball to us or catch it. Many thanks.

Mr. LEVIN. Might I on behalf of the subcommittee call the next panel and then ask you to wait a few minutes because we need to vote. Mr. Downey is over there voting.

The next panel, is it our final one, Mr. Jacobson and Mr. Kerachsky from Mathematica. We have been blessed by someone else from concern a few days ago.

Mr. Jacobson is from a very distinguished company, right? Upjohn. I am going to go and vote and then I have another commitment. I know Mr. Downey will be back and I am going to try. If not, I am going to read the testimony of both you gentlemen. I have not had a chance and you will be hearing from me.

[Recess.]

Acting Chairman DOWNEY. The subcommittee will come back to order. Sorry to keep you gentlemen waiting.

Mr. Jacobson, if you would proceed.

**STATEMENT OF LOUIS JACOBSON, SENIOR ECONOMIST, W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH, KALAMAZOO, MICH.**

Mr. JACOBSON. Mr. Chairman and members of the committee, I am Lou Jacobson, a senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich. I am honored to have this opportunity to discuss the employment service with you.

Arnold Katz of the University of Pittsburgh and I used Pennsylvania ES and UI worker records to examine the effectiveness of the ES. Although our results are only for one State, they are consistent

with the cnly other major ES study which covered 29 States and the results of demonstration projects in many States.

Inside the beltway, the ES is often criticized. For example, Secretary of Labor Dole expressed concern that the percent of all hires placed by the ES declined from 20 percent in 1962 to 7 percent today.

What was lost in the thick fog of misunderstanding was whether the criticism leveled at the ES was valid. We assessed the accuracy of the negative views and found that much of the decline in performance can be explained by changes in funding, characteristics of registrants, and characteristics of job vacancies.

ES funding has fallen dramatically. Between 1979 and 1986, Pennsylvania registrations increased by 15 percent, but total funding decreased by 10 percent.

Registration characteristics have changed. Beginning in 1967, 25 percent of ES registrants were mandatory under the WIN program. WIN participants, all of whom receive AFDC, are about twice as difficult to place as other registrants.

Job vacancies have also changed. ES is most effective in placing low skilled workers, yet the fraction of low skilled jobs in our economy has declined substantially since 1962.

In short, the criticism of the ES often ignored changes and crucial factors outside of the ES' control that reduced its effectiveness. Ignoring those factors is much like George Steinbrenner placing all of the blame for the decline of New York Yankees on his managers.

Of even greater importance, the main criterion used to judge the ES, how many placements are made, is inappropriate. The proper measures of ES effectiveness are how well it reduces joblessness, increases earnings, and reduces UI and welfare payments.

We examined how well the ES gets UI claimants back to work. A major discovery was that UI claimants used the ES only after other job search methods had failed. We, therefore, confined our analysis to the period following ES use. That analysis showed that claimants who delayed use of the ES by 12 weeks had a 2 week reduction in unemployment on average, while claimants who delayed ES use by 30 weeks had a 9 week reduction. The shift from a 2 to 9 week reduction in unemployment as the delay increased suggested the ES is most effective in aiding claimants who have trouble finding work on their own.

This view is reinforced by our finding that over half those who exhausted UI benefits used the ES. This is in keeping with the common sense view that effective services will be widely used.

Also, for workers placed at jobs by the ES, the reduction in unemployment was twice the average, but the reduction is not limited to that group. The ES provides most users with valuable information that helps shape realistic expectations about job prospects.

Finally, that most ES users accepted jobs only after exhausting UI benefits suggests that those jobs paid less than preunemployment jobs. Thus, the ES primarily acts as a back stop preventing larger earnings losses.

The bottom line is whether these results are sufficiently strong to act upon. These results are strong and consistent with other analyses.

Increasing funding should lead to an increase in the quality of services which will translate into more referrals and placements. Because the ES services are so low, about $75 per registrant, a funding increase should more than pay for itself by raising tax revenue and decreasing UI benefit payments.

Alternatives to aid the long-term unemployed such as extending UI benefits or increasing training would surely require raising additional revenue.

Currently, the triad of job search assistance, training, and transfer payments is out of balance. Training has been steadily favored at the expense of job search assistance, but there is solid evidence that training is no more productive than job search assistance, just more expensive.

Although increases in State spending have partially offset Federal cuts, the ES has been starved for funds and has had to close offices, reduce staff, and largely eliminate counseling and job development efforts.

In short, given the strong consistent evidence that the ES is effective in aiding the unemployed, it is difficult to understand the logic of cutting the ES' budget. Increasing the ES budget would make much more sense.

I hope this testimony has dispelled some of the fog of misunderstanding surrounding the ability of the ES to fulfill its mission. I deeply appreciate having this opportunity to discuss the ES with you.

[The prepared statement follows:]

Testimony on the
Effectiveness of the Employment Service in Aiding UI Claimants
before the
House Committee on Ways and Means
Human Resources Subcommittee
by
Louis Jacobson
Senior Economist
The W.E. Upjohn Institute for Employment Research

28 February 1991

I am honored to have this opportunity to discuss my research on the Employment Service (ES) with you today. And am equally pleased that the committee is interested in a broad assessment of the ability of job search assistance to aid unemployment insurance claimants.

The research that Arnold Katz of the University of Pittsburgh and I conducted used administrative data routinely produced by the Pennsylvania UI and ES systems to examine the effectiveness of the ES in Pennsylvania. We assembled detailed histories of the work, unemployment, and ES usage of over 100,000 individuals who registered with the ES between 1978 and 1987, and compared their histories to those of an even larger sample of non-registrants.

We chose Pennsylvania for several reasons. First, it is one of only two states with data covering a full business cycle. Second, it has an unusual, diverse economy. The western third resembles the rust-belt of the industrial heartland, while the eastern section resembles prosperous areas along the North Atlantic seaboard. But most important, it is the only state where use of the ES is voluntary for UI claimants. This key fact provides unique information about the optimal timing of ES usage.

Importantly, our results are consistent with Terry Johnson's 1981 study which examined the ES in 29 states, and the results of demonstration projects in a number of states including Texas, South Carolina, Washington, and New Jersey, which examined the effectiveness of programs providing job search assistance to UI claimants.

Recently, we have heard a great deal about the fog of war. I have found, however, that a fog of misunderstanding surrounds many public policy issues, including how well the ES fulfills its mission. What was clear when we began our study was that the ES is unpopular "inside the beltway". For example, last year Secretary of Labor Dole expressed concern about the effectiveness of the ES in a letter to state administrators. She cited, among other criticisms, "declines in the percent of all hires placed by the ES from 20 percent in 1962 to 7 percent today". But what was lost in a thick haze was whether or not the criticism leveled at the ES was valid.

One major element of our study assessed the accuracy of the widespread negative views by placing ES performance into an appropriate context. We found much of the decline in performance can be explained by changes in: funding, characteristics of registrants, and characteristics of job vacancies.

Perhaps most important, we found that ES funding levels fell dramatically. These cuts were particularly sharp in the early 1980's. Between 1979 and 1986 Pennsylvania registrations increased by 15 percent, but total funding, in inflation adjusted dollars, decreased by 10 percent.

We also found that 25 percent of ES registrations were mandatory under the WIN program. WIN is a program for AFDC

recipients with school-age children, a program that began five years after 1962. As you might guess, WIN participants are about twice as difficult to place as other registrants.

In addition, we found that the ES is most effective in placing low-skilled workers. The fraction of jobs held by workers with high-school education or less has declined substantially since 1962.

In short, we concluded that criticism of the ES often ignored changes in crucial factors outside of the ES's control that reduced its effectiveness. Ignoring those factors is much like George Steinbrenner placing all the blame for the decline of the New York Yankees on his managers.

But of even greater importance, we found that the criteria used to judge the ES were inappropriate. Most criticism is based on the assumption that the primary goal of the ES should be to maximize the number of placements. The proper measure of ES effectiveness, however, is how well it reduces joblessness, increases earnings, and reduces UI and welfare payments.

The second major element of our study examined how well the ES gets UI claimants with over three years of work experience back to work. Unadjusted figures showed that UI claimants who used the ES took considerably longer to find work than non-users. Those results reflect the fact that the most effective means of finding work are through tips from friends and relatives, direct applications at work sites, answering want ads, and using private agencies. Such comparisons tell us little about the ES's effectiveness, however, because jobless workers typically turn to the ES only after use of other methods have failed.

Key evidence that ES use is triggered by the failure to find work by other means is that more than half of the claimants who used the ES delayed use until all, or almost all, of their UI benefits were exhausted. In contrast, two-thirds of the non-users returned to work before coming close to exhausting benefits.

To control for factors which influence the return to work, including access to various job search methods, we used an estimating technique that compared ES-users to non-users with similar demographic and work history characteristics. Most important, we determined the delay in ES use--how long the users were unemployed at the point they first looked for a job at the ES. We then compared the subsequent duration of unemployment of the users to non-users whose prior spells of unemployment were equal to that of the users. For example, UI claimants who registered with the ES in their thirtieth week of unemployment were compared to otherwise similar UI claimants who also were unemployed for 29 weeks, but did not register with the ES in the thirtieth week.

That comparison showed that UI claimants who delayed use of the ES by roughly 30 weeks returned to work 9 weeks sooner than they would have had they not used the ES. In contrast, we found that UI claimants who delayed ES-use for roughly 12 weeks had at most a two-week reduction in unemployment.

The shift from a 2 to 9 week reduction in unemployment as the delay in ES-use lengthened suggests that the ES is particularly effective in aiding a relatively small segment of claimants who have trouble finding work on their own.

Additional evidence bearing on ES effectiveness is the percentage of claimants who use the ES. If the ES provides a valuable service, we would expect a high percentage of claimants to use it. About 55 percent of the claimants exhausting UI benefits used the ES, compared to only 13 percent of those who did not exhaust benefits. This reinforces the view that the ES

is most effective in dealing with those having trouble finding work.

A potential problem with the analysis I have just discussed is that use of the ES may not have caused all the reduction in joblessness. Instead, some claimants may have begun to use the ES and other job finding methods intensively as they came close to exhausting benefits, but use of the other methods may have contributed to the speedier reemployment.

To rule out this possibility we examined how the quality of the services provided by the ES influenced the duration of joblessness. All the ES-users in our sample searched the ES's lists of job openings to find work. Half of the users could not find a job opening to which they wanted to be referred. One-third of the users were referred to jobs, but that referral did not lead to being hired. One-sixth of ES-users were placed at the jobs to which the ES referred them.

If the ES caused the reduction in joblessness, we would expect the reduction in joblessness would be large for those placed, moderate for those referred but not places, and small for those who could not even find an opening worth pursuing.

Our analysis was much in keeping with these expectations. Among claimants who delayed use of the ES by about 30 weeks, the duration of unemployment was reduced by 18 weeks among those placed by the ES, 12 weeks among those referred but not placed, and 2 weeks among those who could not find a job listing to which they were willing to apply.

This is powerful evidence that the ES was responsible for the reductions in unemployment. But you may still be skeptical that the ES contributed to reducing the joblessness of users who were not directly placed. A plausible explanation for the positive effects is that the ES provided information which led to the adoption of more realistic expectations about job vacancies. For example, after seeing that the ES had no listings of interest, some claimants quickly took jobs they knew were available, but had been hesitant to accept because they thought they could do better.

To summarize the key findings about ES effectiveness, we believe that the ES reduced the average duration of joblessness by about 9 weeks for more than half of UI claimants who were unemployed for 30 weeks, and therefore, clearly had substantial trouble finding work using other job search methods.

Further, our evidence that most ES users accept jobs after exhausting UI benefits suggests that jobs obtained through the ES are much preferable to remaining jobless, but do not compare favorably with jobs held prior to becoming unemployed. Thus, we believe the ES primarily acts as a backstop preventing large earnings losses.

A final issue of great importance is assessing how the benefits of ES use compare to the costs. We are still working on that part of our analysis. Thus, we can not provide figures on the savings in UI payments and gains in earnings, but we suspect those benefits are modest. On the other hand, only modest benefits are needed to offset ES costs.

On average the ES spends only $75 per registrant, and the average weekly UI benefit payment for claimants using the ES was $170. Thus, a reduction in 2 days of UI compensation per ES-user would nearly offset the cost of the ES services.

Alternatively, if we conservatively assume 15 percent of earnings are paid in federal taxes, the ES would have to increase annual earnings by only $500 on average to pay for the ES

services. If the pay of post-unemployment jobs held by the users was half the pay of their pre-unemployment jobs, average weekly earnings would be $200. Thus, a modest increase in employment of two and a half weeks would be sufficient to pay for the cost of ES services.

The bottom line question facing the committee is whether these results are sufficiently strong to act upon, and if so what actions should be taken.

My view is that these results are strong--the sample is unusually large, the data are accurate, the analysis uses the best available estimation techniques, and Pennsylvania is a sufficiently diverse state to suggest the results would hold elsewhere. Moreover, the results are consistent with those from the only other similar analysis of the ES. And studies examining the value of providing job search assistance to UI claimants also generally show positive results.

A major factor favoring increasing ES funding is that there is a strong chance that such expenditures would return more than their costs to the Federal treasury in terms of reduced UI payments and increased taxes. Alternatives to aid the long-term unemployed, such as extending UI benefits, or increasing training, would certainly not be budget neutral.

Further, the triad of job search assistance, training, and transfer payments appears to be out of balance. The US-DOL has steadily favored training at the expense of job search assistance, despite consistent evidence that training is no more productive for the long-term unemployed than job search assistance, but much more expensive.

Although both JTPA and EDWAA have job search assistance components, and the ES receives contracts to provide those services in many states, the ES has been starved for funds. A testimony to the perceived value of the ES "outside the beltway" is that states have used their own funds to partially offset Federal cuts. Despite state actions, Federal cuts led to the virtual elimination of promising counseling and job development efforts, as well as delays in purchasing cost-saving automation systems.

The DOL's negative attitude towards the ES is difficult to understand, given that through the ES the DOL runs the only public institution providing job search assistance for all workers. It would make much more sense for the DOL to down grade training since public schools, community and four-year colleges, and many other public institutions provide vocational training.

In short, given the strong, consistent evidence that the ES is effective in aiding the unemployed, the DOL's attempts to cut the ES budget makes about as much sense as the U.S. Navy recommending giving a large fraction of the money spent on nuclear submarines to the Air Force to maintain the other two components of the nuclear triad--manned bombers and land-based missiles.

I hope this testimony has dispelled some of the fog surrounding the ability of the ES to fulfill its mission. I very deeply appreciate having this opportunity to discuss with you the research that Arnold Katz' and I have done.

Appendix A. The Organization, Funding, and Mission of the ES.

The Employment Service and Unemployment Insurance System were created in 1933 by the Wagner-Peyser Act. Both are federally mandated programs that leave to the states wide discretion in organizing both agencies. Technically the UI and ES are separate entities. However, states usually have a single State Employment Security Agency, cross-train personnel, and locate offices in the same buildings.

The UI and ES also share the same funding source--the FUTA payroll tax. UI and ES administrative costs are formula funded out of a small fraction of the total tax. About $800,000,000 of that tax is spent on the ES.

The primary mission of the ES is to provide a public labor exchange where all employers can list openings and all job seekers can come to find suitable matches. In practice the ES tends to occupy the niche of providing services to workers with problems finding work, and best serves employers hiring those workers.

The original focus was helping workers unemployed during the Great Depression. During World War II the ES funneled workers to defense industries, and at the end of the war assisted veterans to find civilian jobs. The ES's special mission with vets has persisted. Today about 15 percent of the ES staff is dedicated to aiding veterans and paid from a separate federal fund.

The ES has also been given special responsibility to assist welfare recipients, other economically disadvantaged persons, and the long-term unemployed. The ES sometimes receives contracts to place JTPA, EDWAA, and JOBS participants, but the ES receives no special funding for assisting most economically disadvantaged persons.

Usually UI claimants must register with the ES. But the ES offers both a carrot and a stick for such registrants. If the ES finds a suitable job opening for a UI claimant, that person is obliged to attend an interview. Failure to do so is reported to the UI system and can lead to a particularly severe penalty--loss of benefit entitlement until the claimant returns to work for four to six weeks.

The ES also provides labor market information. The collection of basic information about employment and earnings has been organized and separately funded as cooperative program between the Bureau of Labor Statistics in the US-DOL and the state ES's.

Finally, the ES provides counseling and testing. It sometimes does job development--seeking vacancies that fit the skills of registrants. ES funding cuts during the 1980's, however, reduced these activities almost to the vanishing point.

Acting Chairman DOWNEY. Thank you, Mr. Jacobson.
Mr. Kerachsky.

**STATEMENT OF STUART KERACHSKY, VICE PRESIDENT, MATHEMATICA POLICY RESEARCH, INC., PRINCETON, N.J.**

Mr. KERACHSKY. Mr. Chairman, it is a great pleasure to come before you today to discuss job search and reemployment services for unemployment insurance recipients.

I am going to focus my remarks today on work by Mathematica Policy Research which addresses two questions: Whether more should be done to encourage UI recipients to search for employment and if so, what kinds of enhanced reemployment services should be provided.

Perhaps the clearest picture of the value of enhanced reemployment services comes from the recent New Jersey Unemployment Insurance Re-Employment Demonstration Project funded by the U.S. Department of Labor.

This demonstration tested a set of enhanced service options which were designed to deliver reemployment assistance early in the UI spell of unemployed workers who were either permanently separated from their jobs or indefinitely job attached, indefinitely in the sense of having no firm recall date.

These two groups together constitute 80 percent of all unemployed workers and those most likely to need or benefit from services.

Three packages of services were offered: Intensive job search assistance only; intensive job search assistance combined with the offer of training; and, intensive job search assistance combined with the offer of a cash bonus for rapid reemployment.

Qualifying UI recipients were assigned randomly to one of these options or to the traditional services offered in the State so that we could obtain reliable estimates of the relative effectiveness of these alternative service packages.

The New Jersey demonstration services shared three key components: First, each component of the services was enhanced over what was already available in the State; second, participation in job search assistance services was mandatory; third, the services and the efforts of participating agencies, UI, the employment service and JTPA, were coordinated and carefully monitored.

Two types of findings emerged from the demonstration. The first relates to the delivery of services. Interagency linkages need to be strengthened substantially in order for the existing agencies to be able to deliver enhanced services.

For example, essential to effective delivery of services was funding to bring staff of participating agencies together to resolve coordination problems and to establish a cross-agency tracking system to monitor the flow of clients through the system and the receipt of services.

This is a level of coordination and monitoring that is currently not found in States.

The second type of finding relates to service effectiveness. Enhanced job search assistance by itself reduced the amount of time claimants spent on UI by an average of 1 week. If similar services

were extended over the entire national population of permanently separated and indefinitely job attached claimants, this 1-week average reduction in UI benefits would result in a savings for the UI trust fund of about $600 million annually.

Moreover, the demonstration finding suggests that these UI related savings can be achieved at the same time these claimants find jobs that are at least as good as those they would have found without the enhanced services.

While our study indicates that from the narrow perspective of the Department of Labor the cost of providing these job search assistance services approximately equals the anticipated savings in the trust funds, benefits would clearly outweigh costs from the perspective of the entire Government sector—the taxpayers—and from the perspectives of employers, UI claimants and society as a whole.

Notably, each $1 spent on enhanced job search assistance is estimated to return $4.75 to our economy as unemployed workers return to productive employment more quickly and are more likely to stay employed.

The demonstration results are less favorable for the more expense reemployment services. We found no evidence in this demonstration that offering training in addition to job search assistance will reduce the length of unemployment spells. In fact, few workers even exercised their option to participate in job training.

The offer of reemployment bonuses for those who find rapid reemployment did reduce the spells of unemployment over and above job search assistance alone. However, the added savings to the UI trust funds did not outweigh the cost of the bonuses.

In summary I want to stress three points. First, there is a growing body of evidence that mandatory job search assistance services promote rapid reemployment and are cost effective.

Second, programs must be able to identify claimants in need of enhanced services early in their claims spells. UI claimants who are permanently separated should clearly be targeted early. It is also cost effective to target claimants who are indefinitely job attached.

Third, a great deal of attention must also be given to strengthening program linkages in order to deliver enhanced reemployment services. Thank you.

[The prepared statement follows:]

# STATEMENT ON JOB SEARCH AND REEMPLOYMENT SERVICES FOR THE UNEMPLOYED FOR THE SUBCOMMITTEE ON HUMAN RESOURCES COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES

February 28, 1991

Stuart Kerachsky, Vice President
Mark Dynarski, Senior Economist
Mathematica Policy Research, Inc.

Mr. Chairman and members of the subcommittee:

It is a great pleasure to come before you to discuss job search and reemployment services for unemployment insurance (UI) recipients. Over the past seventeen years, Mathematica Policy Research, Inc. (MPR) has conducted numerous studies of employment and training programs, and the UI program in particular. We hope that our testimony will be useful as the committee considers legislation affecting the UI program.

The questions before us today are *whether more should be done to encourage UI recipients to search for employment*, and, if so, *what kinds of reemployment services should be provided to UI recipients*. Currently, most state UI programs require that UI recipients who are not job-attached make some effort to search for employment, including registering with the Employment Service (ES) and making a minimum number of contacts with prospective employers. A typical state UI program requires three contacts with prospective employers during each week for which benefits are claimed.

On the basis of our research, we believe that providing more intensive reemployment services for UI recipients will result in shorter spells of unemployment and, consequently, savings to the UI trust funds. Job-search assistance that helps UI recipients to better understand the local labor market and their own marketable skills has been shown to be a cost-effective way to promote more rapid reemployment. Additionally, occupational skills training also may help a small fraction of UI recipients overcome skill deficiencies and speed their return to productive employment.

Another lesson from our research is that the way reemployment services are delivered influences their effectiveness. Currently, programs providing reemployment services are loosely joined, and service receipt is generally not closely monitored as UI recipients progress through their unemployment spells. Linkages among programs providing reemployment services should be tightened to ensure that reemployment services are targeted appropriately and received in a timely way by UI recipients.

## THE POLICY CONTEXT

Workers may lose their jobs for a variety of reasons. Here it is useful to consider UI recipients as falling into one of three groups: workers who are permanently separated from their jobs; workers who are indefinitely job-attached, in that they have been laid off from their jobs and expect recall at some indefinite future date; and workers who are more definitely job-attached, in that they have been laid off but have been given specific recall dates.

Recent MPR research found that workers who were permanently separated from their jobs accounted for 50 percent of UI recipients in 1988. The median unemployment spell of this group was 24 weeks, and over a third of recipients in this group exhausted their UI benefits. Workers who were indefinitely job-attached (that is, had been laid off and expected recall, but did not have definite recall dates) accounted for 30 percent of UI recipients. The median unemployment spell of indefinitely job-attached workers was 14 weeks, and about 70 percent of these workers ultimately returned to their former employers. Workers who were definitely job-attached (that is, had been laid off and were given definite recall dates) accounted for the remaining 20 percent of UI recipients. Almost all UI recipients with definite recall dates were eventually recalled, and their unemployment spells were relatively brief, with a median spell of 5 weeks.

These figures suggest that over 50 percent of UI recipients could potentially benefit from enhanced reemployment services. However, it is important to note that these figures were recorded during a period of generally low unemployment, and the proportion of recipients who are not

definitely job-attached can be expected to increase as the unemployment rate rises. Consequently, the proportion of UI recipients who could potentially benefit from enhanced reemployment services during a recession can be well in excess of 50 percent.

The majority of the recipients who would benefit from these services are those who have been permanently separated from their jobs and, for those, the targeting of services is straightforward. With no chance of recall and with expected long spells of unemployment, it is easy to conclude that reemployment services should be provided to everyone in this group early in their unemployment spells.

UI recipients who are only indefinitely job-attached form another group which could potentially benefit from enhanced reemployment services, but, for this group, the targeting of services poses a dilemma. Thirty percent or more of this group will not be recalled and will experience long spells of unemployment. These recipients can be expected to benefit from early, enhanced reemployment services. On the other hand, some indefinitely job-attached recipients, perhaps the majority, will be recalled eventually, and may not require such services. Since there is no sure way to determine in advance who in this group will be recalled and who will not, the choice seems to be to provide enhanced reemployment services to all such recipients early in the unemployment spell, as seems appropriate for permanently separated recipients, or delay the provision of services for all such recipients until the recall process effectively sorts out those who truly need services--a process that, according to our research, is likely to take 10 to 12 weeks. Such a delay in the provision of services may impose unacceptable hardships on those in the group who will not be recalled and could benefit from services, and an unnecessary drain on UI trust funds.

## FINDINGS ON THE EFFECTIVENESS OF ENHANCED REEMPLOYMENT SERVICES

Evidence on the effectiveness of enhanced reemployment services is mounting. Recent demonstrations and research projects supported by the U.S. Department of Labor and by various state UI programs have explored whether more extensive reemployment services for UI recipients--including job-search assistance and occupational skills training--lead to more rapid employment and reduced UI collection. A consistent finding from this research is that enhanced reemployment services do indeed speed the return of UI recipients to employment.

### Background of the New Jersey Unemployment Insurance Reemployment Demonstration Project

Perhaps the clearest picture of the value of enhanced reemployment services comes from the recent New Jersey Unemployment Insurance Reemployment Demonstration Project. Historically, New Jersey UI recipients have been subjected to a fairly traditional set of services in conjunction with the receipt of benefits, which included mainly administrative work search requirements and referral to the Employment Service. The U.S. Department of Labor funded a set of enhanced-service alternatives in New Jersey which were designed to deliver reemployment assistance to displaced workers early in their spells of unemployment. Three packages of services were offered: (1) job-search assistance only; (2) job-search assistance combined with the offer of training or relocation assistance; and (3) job-search assistance combined with the offer of a cash bonus for rapid reemployment. To ensure that the relative impacts of these alternatives could be assessed fully, qualifying UI recipients were assigned to one of these options or to the traditional services through a rigorously controlled random-assignment process.

This was a targeted demonstration in the sense that services were offered only to recipients who were either permanently separated from their previous job or indefinitely job-attached. Those who were job-attached, as indicated by a definite recall date, were excluded from the demonstration. The sample was further constrained by the focus on displaced workers. An important indicator of displacement is previous job attachment, and demonstration participants had to have worked for their previous employer for a period of at least three years. Thus, largely due to this job tenure requirement, the demonstration sample focused on about 25 percent of the UI recipients, or about half the number we now think may need enhanced services.

The New Jersey demonstration had three key elements. First, each phase of the services was enhanced. Second, participation in services was mandatory. Third, the services, and the efforts of participating agencies, were coordinated and carefully monitored.

The demonstration was a collaborative effort of the UI, the ES, and the Job Training Partnership Act (JTPA) systems. UI had the responsibility of identifying demonstration-eligible recipients at the start of their claims spells and notifying them of their obligation to receive a set of services provided at the ES offices. This process was done by the third week of UI receipt, so that actual participation

in services could begin early--by the fifth week of the claims spell. When the recipient appeared at an ES office, he or she would participate in orientation and testing and be scheduled to begin the next week's job-search workshop. The workshop itself consisted of five half days of instruction in job-search techniques, followed by one-on-one counselling. Participation in each phase of these job-search services was monitored carefully through a computer-based system, and recipients failing to participate in any of the scheduled services were referred back to UI for action, including the possible denial of benefits.

All recipients who were selected at random to receive enhanced job-search services participated in this same set of services. The only additional service received by recipients assigned to the job-search-assistance-only group was periodic contacts with ES staff to reinforce good job-search practices. However, beginning with the counselling interview, the second and third group had additional services available to them. Recipients assigned to the second group were counselled by local JTPA staff and encouraged to use the training options available through JTPA. As an alternative, these recipients were also offered relocation assistance. Recipients assigned to the third group were offered a cash bonus if they became reemployed quickly.

**Findings from the New Jersey Unemployment Insurance Reemployment Demonstration Project**

Two types of findings emerged from MPR's evaluation of the New Jersey demonstration. One relates to the importance of interagency linkages; the other relates to service effectiveness in shortening UI spells.

**Importance of Interagency Linkages.** Interagency linkages needed to be strengthened substantially in order for the existing agencies to be able to deliver the enhanced reemployment services. This is a finding that is too easily taken for granted, despite the long history of coordination difficulties among the agencies. As part of the demonstration, a strong effort was made to coordinate program functions by bringing program staff from all agencies together to resolve coordination problems and by establishing an automated recipient tracking system capable of monitoring the receipt of services across the three programs--UI, ES, and JTPA. As a result of these efforts, most of the demonstration participants who were offered enhanced job-search assistance services actually received the services.

Coordinated systems that would support the delivery of enhanced services such as those tested in the demonstration are generally not currently in place in most states. A few states have taken the first steps in improving coordination, primarily through co-locating agencies for client convenience and for avoidance of duplication of effort. Examples include the Washington State Job Service Centers, the Pennsylvania Job Centers, the Nevada Claimant Employment Project, and the Maryland Fast Track Program. However, these efforts are not coordinated to the extent that UI recipients can be screened early to determine their need for enhanced services and, based on this screening, initiate the delivery of needed services in a carefully planned manner with appropriate client tracking and timely follow-up.

**The Effectiveness of Services.** The most important finding on service effectiveness is that enhanced job-search assistance alone reduced the amount of time recipients spent on UI by a half-week in the first benefit year. These job-search-assistance impact findings for the New Jersey demonstration are consistent with the findings of other recent demonstration projects of mandatory job search requirements--for example, the Charleston Work Test and Claimant Placement Demonstration and the Washington Alternative Work Search Experiment. An important new finding of the New Jersey demonstration is that the effectiveness of the services carried over to the second year, reducing the average duration of UI claims in that second year by another half-week. If similar services were extended over the entire national population of permanently separated and indefinitely attached recipients, we could expect to realize a saving for the UI trust funds in the range of $300 to $600 million annually. Quite importantly, these UI-related savings in the demonstration were achieved at the same time recipients were finding jobs that were equivalent in quality or better than those they could find in the absence of enhanced services.

Another dimension of effectiveness is whether the benefits of the services outweigh the costs. From the perspective of the Department of Labor, providing these enhanced services proved to be cost-neutral--that is, the costs of providing enhanced services were roughly equal to the resulting savings to the UI trust funds. However, the program benefits clearly outweighed the costs from all other perspectives, including the entire government sector (i.e., taxpayers), employers, UI recipients, and society as a whole. In fact, the results of the New Jersey Demonstration suggest that each dollar spent on enhanced job-search assistance can return $4.75 to our economy, as unemployed workers return to productive employment more quickly and are more likely to stay employed.

The results are less favorable for the more elaborate reemployment services. Job-search assistance combined with the offer of training had virtually the same impact on UI benefit weeks as did job-search assistance alone, probably because only about 15 percent of those offered training actually utilized it. (A negligible number used relocation assistance.) Even though those who participated in training, particularly on-the-job training, had higher employment rates and earnings in subsequent years, these increases in employment rates and wages were not sufficient to offset the high cost of their training. Thus, this option did not prove to be cost-effective for either the Department of Labor or the entire government sector.

The offer of a reemployment bonus with job-search assistance, while not a traditional "service," nearly doubled the reduction in time spent on UI in the first year--we estimated an average one-week reduction in UI weeks paid. As with job-search assistance alone, additional reductions were realized in the next year. This option was cost-neutral from the perspective of the Department of Labor, and benefits exceed costs for all other perspectives. However, this option is less cost-effective than job-search assistance alone. The added benefits of the bonus offer--over and above the benefits of the job-search assistance services themselves--did not outweigh the bonus expense.

## SUMMARY

Recent demonstrations and research projects supported by the Department of Labor and by various state UI programs have explored whether more extensive reemployment services for UI recipients--including job-search assistance and training--can promote more rapid employment and reduced UI collection. These research efforts have produced consistent evidence that one type of enhanced reemployment services--mandatory job-search assistance--promotes more rapid reemployment and is cost-effective. The effects of these services derive both from the value of services in assisting recipients in identifying suitable employment and from their mandatory participation requirements that raise the cost of unemployment. Training may be important for a small group of unemployed workers, and should be an available option, but its availability will have negligible impacts on measures of aggregate unemployment durations.

Simply providing enhanced reemployment services may not be sufficient, however. Programs must be able to identify recipients in need of enhanced services early in their claims spells. Recipients who are permanently separated from their previous employers are clearly in need. On the basis of our research, we feel that recipients who are only indefinitely job-attached also should be targeted for enhanced services early in their claims spells. Despite the fact that many indefinitely job-attached recipients will be recalled, targeting this group early is cost-effective to this group, to taxpayers, and to society. In fact, the job-search skills learned by those who are recalled may not be wasted, since workers may find them useful at some later date.

A great deal of attention must also be given to strengthening program linkages, so that enhanced reemployment services can actually be delivered. Part of the linkage process involves having staff from the different agencies work together to plan a service system. Part of the linkage process also involves maintaining an ongoing system for monitoring the activities of service recipients, to ensure that each participant in the process--UI recipients and service providers--do their part.

## REFERENCES

Anderson, P., W. Corson, and P. Decker. The New Jersey Unemployment Insurance Reemployment Demonstration Project: Follow-Up Report. Princeton, NJ: Mathematica Policy Research, 1990.

Corson, W., P. Decker, S. Dunstan, and A. Gordon. New Jersey Unemployment Insurance Reemployment Demonstration Project. Occasional Paper 89-3. Washington, D.C.: U.S. Department of Labor, Employment and Training Administration, 1989.

Corson, W., and M. Dynarski. A Study of Unemployment Insurance Recipients and Exhaustees: Findings from a National Survey. Occasional Paper 90-3. Washington, D.C.: U.S. Department of Labor, Employment and Training Administration, 1990.

Corson, W. and W. Nicholson. Evaluation of the Charleston Claimant Placement and Work Test Demonstration. Occasional Paper 85-2. Washington, D.C.: U.S. Department of Labor, Employment and Training Administration, 1985.

Johnson, T. and D. Klepinger. Evaluation of the Impacts of the Washington Alternative Work Search Experiment. Seattle, WA: Battelle Human Affairs Research Centers, 1991.

Acting Chairman DOWNEY. Mr. Kerachsky, was there a followup study of the job placements by the intensive job search services? Did they last longer on the job or not?

Do you have any way of knowing about the quality of the jobs that they have received after a job search?

Mr. KERACHSKY. We did follow these claimants for approximately 4 years. So we did not look at just the initial reemployment rates, but we also followed the subsequent periods of employment. We found that about half of the benefit of intensive job search assistance comes from the initial spell of employment, getting employed faster, but about half the benefit comes from less unemployment in the next year. For the reemployment bonuses, we also found some additional job stability.

Acting Chairman DOWNEY. Could you tell me a little bit more about the study? Was it statewide?

Mr. KERACHSKY. It was 10 local offices in the State.

Acting Chairman DOWNEY. Covering what percentage of the State?

Mr. KERACHSKY. I would say about a third of the State.

Acting Chairman DOWNEY. When did it begin?

Mr. KERACHSKY. Mid-1986.

Acting Chairman DOWNEY. And lasted?

Mr. KERACHSKY. A year, until mid-1987.

Acting Chairman DOWNEY. And has Mathematica since followed up this study?

Mr. KERACHSKY. Yes.

Acting Chairman DOWNEY. What has been the reaction from the Department of Labor to the findings of your study?

Mr. KERACHSKY. Well, I think both the State and the Federal Department of Labor were encouraged by the findings in several regards. First, there was a very positive reaction and I can speak mostly to the State department—a very favorable reaction with respect to the linkages aspect of it.

For the first time they were able to bring staff together in a very coordinated fashion, even though UI and ES have always been colocated in offices, to talk together and plan together for strategies.

With much more difficulty, they have been able to bring JTPA into the process, and that has been a bigger hurdle.

Acting Chairman DOWNEY. Would the findings that you had in New Jersey be applicable to other States?

Mr. KERACHSKY. Well, I would certainly think so. Now, this was at a time of relatively stable economic activity in New Jersey, although at a time New Jersey was undergoing some transformation between manufacturing and services. So it was stable with some churning.

When we are talking about a situation as we heard of today in Washington State and the Northwest, that might be a different situation. But in general economic conditions I would think the results are very applicable.

I should say about the enhanced reemployment assistance services, these results have been widely corroborated. A Nevada program, a Washington State program, and a South Carolina demonstration all point in the same direction for mandatory early job search assistance services.

Acting Chairman DOWNEY. Do you agree with that, Mr. Jacobson? Are you familiar with this study?

Mr. JACOBSON. Yes. I would agree that job search assistance seems to be a favored mechanism for helping dislocated workers or unemployed workers among economists, but not necessarily among the people in the administration. Also, there is overwhelming evidence in favor of job search assistance that has accumulated. Texas did some demonstration programs, so did New York State, that suggests job search assistance is so inexpensive it really is a good buy.

Acting Chairman DOWNEY. You mentioned something in your statement about former Secretary Dole saying that the effectiveness of the ES was diminished. Was it back in 1962 that 20 percent of all job placements nationwide were made through the employment service, and today, is it 7 percent?

Mr. JACOBSON. Right. That is correct.

Acting Chairman DOWNEY. And you further point out, and I wish you would elaborate, that this is an improper measurement of the effectiveness of employment services, that we should use other things and among them were the reduction in welfare benefits, the quality of jobs that individuals have received, and what were some of the other things?

Mr. JACOBSON. The main measures are reductions in employment, that I would say is number one; increases in earnings, which could either come about as the workers get back to work sooner or they get better jobs; and the third one is the reductions in transfer payments, UI and AFDC payments.

Acting Chairman DOWNEY. In 1962 we had a very different economy, had we not? Large numbers of people worked in the automobile and steel industries. When they were laid off, the employment service got credit for placing them back in their old jobs? Was that part of the reason the placement numbers were greater?

Mr. JACOBSON. No, I think the main difference is that the employment service became what I would call a backstop. The history of the employment service started out with the Great Depression when it was dealing with average workers and then at the end of World War II it did a lot to reestablish returning servicemen in civilian jobs. There was a lot of contact with what you might call the average employer in the community and the employment services were dealing with a well-defined, short-term problem.

As the 1950s went on, workers had readjusted and the need for a Federal program to aid workers became less. The employment service looked for a new niche and the niche that it found was helping dislocated workers, workers who had not searched for work a long time and had stable jobs in the past. It also became in some people's terms "burdened" with responsibilities for dealing with the poverty population.

My view is it probably did quite well in helping the poverty population. You know we talk a lot about programs that cream. Well, the employment service does the reverse. The employment service usually deals with people who are really having trouble and people who the Federal Government, in my opinion, should in fact be most concerned about.

I think that misunderstanding about the groups the ES can, and should, serve is most responsible for the perception its performance has declined. In addition, it is not well understood that there have been enormous cuts in the program. So a lot of services that the employment service provided are no longer being given.

Acting Chairman DOWNEY. And both of you would subscribe to the notion that having the person who determines eligibility for UI is sine qua non, if you will, of what to do here.

Mr. KERACHSKY. Yes, I would agree.

Acting Chairman DOWNEY. I think you have dispelled Senator Sarbanes' notion of economists who do not know anything and the others who do not know that they do not know anything.

On that note, we thank you for your participation. Thank you.

The subcommittee stands adjourned.

[Whereupon, at 12:40 p.m., the hearing was adjourned.]

○